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JPRS-CEA-85-093

24 October 1985

China Report

ECONOMIC AFFAIRS

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24 October 1985

CHINA REPORT

ECONOMIC AFFAIRS

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NATIONAL POLICY AND ISSUES

BALANCE BETWEEN PRODUCTION, CONSUMPTION ADVOCATED

Beijing JINGJI LILUN YU JINGJI GUANLI [ECONOMIC THEORY AND BUSINESS MANAGEMENT]
No 3, 25 May 85 pp 1-5

[Article by Liu Suinian [2692 7151 1628]: "Balance Between Production and Consumption Must Be Maintained Conscientiously"]

[Text] Relative balance between social production and consumption is an essential prerequisite for the successful accomplishment of social reproduction. Maintaining a conscientious and constant balance between them and enabling them to be coordinated with and promote each other is a basic task in carrying out a planned economy. Along with production developments and improvement of economic results during the past few years, there have been fairly large-scale increases in the income and consumption of town and country residents. The increase of consumption demands has in turn accelerated production developments and begun to change the past phenomenon of production and consumption being divorced from each other.

But certain new problems which must be stressed and solved conscientiously have also now appeared in the relationship between production and consumption. The principal one is that residents' income has increased too quickly and valid consumption demands have expanded, exceeding greatly the rates of increase of production and labor productivity. According to preliminary statistics for 1984 throughout China, industrial and agricultural production increased 12.3 percent and the amount of national income increased 11 percent while residents' income increased as much as 21 percent over that of 1983. This problem can be seen even more clearly in the rate of increase in the wages of staff members and workers in cities and towns. According to banking statistics, the wages paid by banks to staff members and workers in cities and towns throughout 1984 increased 22.3 percent over that of 1983. This was higher than the 13.6 percent increase in gross industrial output value and the 8.7 percent increase in industrial labor productivity. The large-scale increase in staff member and worker wages began mainly during the last half of 1984, especially from September to December, and wage and bonus increases are becoming increasingly sudden. This shows that wages, and particularly bonuses, are considerably out of control.

It should be pointed out that some of 1984's large-scale staff member and worker wage increases have been reasonable. Along with production developments

and improvement of economic results, staff member and worker income has had to be increased correspondingly. Moreover, the further expansion of the authority of enterprises, the implementation of the second stage of the substitution of taxes for profits, the increase in enterprises budgeting their own funds, plus the state allowing some business institutions to give unlimited bonuses and carry out wage reform at their own expense as well as the giving of yearend bonuses according to State Council stipulations by administrative institutions have also caused many wage and bonus increases. But it must be seen that quite a few recently increased wage and bonus expenditures have been quite unreasonable. This has been reflected noticeably in the following two areas. First, many enterprises and institutions have issued excessive bonuses, subsidies and material objects equally under a multitude of names according to the number of people. Some have given monthly, seasonal and yearend bonuses, fund awards, comprehensive and harvest increase awards and also "nameless" bonuses. Some have provided free lunches, issued woolen uniforms indiscriminately and even handed out high-grade durable consumer goods, such as refrigerators and tape recorders. In giving excessive bonuses, subsidies and material objects, many units have competed with each other and standards have become increasingly higher, increasing from 10, 20 or dozens of yuan to hundreds or even over a thousand yuan. Second, some business institutions have violated relevant State Council stipulations and financial and economic discipline and done crash jobs of carrying out wage reform and fluctuating wage escalation at their own expense. Some units with poor economic results and even long-term losses have been basically unable to carry out wage reform and fluctuating wage escalation at their own expense, but have still conceived various pretexts in order to give their staff members and workers more money.

What must now be studied is where the money for giving these excessive wages and bonuses has actually come from. It is understood that it has come mainly from the following areas. First, it has come from state finances, with expenses being included in costs which should not be and profits and taxes which should be turned over to the higher authorities not being turned over on time or in the correct amounts. Second, it has come from raising product prices and fee-collection standards arbitrarily and shifting the burden to the state and the masses. Third, it has been squeezed out of enterprise production development funds, new product trial-production funds and reserve funds. Fourth, it has come from administrative operating expenses, with some state-budgeted funds being changed through various channels to funds which can be budgeted voluntarily. Fifth, it has come from bank loans and overlapping cash. Sixth, it has come from both officials and merchants giving out their ill-gotten gains. In addition, some units have also used certain other improper methods and measures.

The above-mentioned problems have created and are creating certain adverse consequences for our socioeconomic life. During the last half of 1984, and particularly since the fourth quarter, the national financial balance of payments deficit expanded, the financial deficit increased and the bank credit margin expanded. The net amount of currency put into circulation by banks throughout 1984 exceeded plans by over 10 billion yuan. Of course, the expansion of the financial deficit and excessive issuing of currency has been

brought about by factors in many areas, but the excessive increase in expenditures, such as wages, bonuses and subsidies, has been a major factor. It should also be seen that the unhealthy tendency of giving excessive wages, bonuses, subsidies and material objects has been becoming more common and disastrous and that if it is not controlled and is allowed to continue to develop, it will create an even greater imbalance between production and consumption. Consequently, it will certainly result in the further expansion of the financial deficit and the issuing of currency and even in serious inflation and prices going up. This not only will affect the normal order of socioeconomic life and the stable development of the national economy directly, but also will block the successful accomplishment of economic system reform, increase difficulties in reforming prices and wages and even cause economic system reforms which have made major progress to suffer setbacks. Moreover, it will also be very unfavorable to realizing basic improvements in party style and the social atmosphere.

The causes of the recent appearance of expanded consumption demands have been many-sided. In addition to some units having deliberately inflated their 1984 wage bases in order to seek certain undue advantages for themselves in the 1985 wage reform, there have also been the following causes. First, it has been caused by the new situation in which income differences have appeared between workers and peasants and between mental and physical labor. In order to arouse the enthusiasm of peasants and develop agricultural production during the past few years, the state has adopted such measures as raising substantially the procurement prices of agricultural products in order to increase peasant income. This has been quite necessary. Since this source of funds has been realized mainly through reducing the state's industrial and commercial income, it has not had very much effect on urban residents' lives. But along with the opening of town and country markets and since the former supply and demand of many products was seriously imbalanced or prices deviated seriously from value, prices went up as soon as price controls were lifted. The prices of some nonstaple foods particularly increased considerably, affecting urban residents' lives and especially those of staff members and workers in administrative institutions directly. Under these conditions, wage controls for staff members and workers were also lifted in 1984. Since the special economic zones [SEZ] and coastal cities were opened up, wages of staff members and workers have also increased sharply due to a variety of reasons, creating inevitably the problem of competing with each other. Second, macroscopic regulation and management have not been strengthened correspondingly along with progress in expanding the authority of enterprises. Along with the promulgation of the State Council's "Ten Articles" on the expansion of enterprise authority and the implementation of the second stage of the substitution of taxes for profits during the last half of 1984, enterprise initiative and particularly the right to have and use their own funds have expanded quickly, but macroscopic state regulation and management measures have not kept up. Many enterprises have had money and, proceeding from partial and immediate interests, have competed to give wages, bonuses and subsidies under a multitude of names. Due to a lack of clear and specific methods, this phenomenon has not been controlled effectively. Third, some old economic system reform methods have been out of date while new ones have still not been established or are still imperfect and some units and individuals

have availed themselves of loopholes in state policies and regulations to obtain a lot of unfair income. In order to obtain the support of staff members and workers, leaders of some enterprises have also used many methods to increase staff member and worker income, and some have even, under pretense of "reform," diverted production funds and bank loans to this effect. Fourth, effective and specific measures have been lacking to uphold the principle for staff member and worker bonuses of not sealing the top or guaranteeing the bottom. In fact, the top is now not sealed but the bottom is guaranteed and this is also a reason why the giving of bonuses has increased too fast.

In order to consolidate and develop further the good situation which has appeared, advance effectively the overall economic system reform which is focused on the cities and do a better job of promoting China's economic development in order to realize successfully the goals of quadrupling the gross annual output value of industry and agriculture and enabling the people's lives to achieve a comfortable level by the end of the century, an important current problem is the need to understand and handle correctly the relationship between production and consumption. According to the basic principles of Marxism, production is the starting point of all economic activity and the essential factor which occupies a controlling position. It determines consumption. But the growth of consumption has also put new social demands on production and the opening of broad markets has been a strong motive force for a greater development of production. In this respect, consumption also determines production. In other words, the relationship between production and consumption is a dialectical unity and only by coordinating them can they promote each other. Due to the guidance of incorrect "left" ideas for quite a long period in the past, the determining role of production on consumption was stressed one-sidedly while the counteraction of consumption on production was neglected. Moreover, due to overstressing high speed and not respecting the proper material interests of enterprises and staff members and workers, there was overaccumulation and heavy industry was overstressed. Consequently, although there were quite large production developments, the people's actual income and consumption standards were not raised correspondingly and this dampened seriously the production enthusiasm of the masses. This profound lesson should never be forgotten. Premised on developing production, improving economic results, increasing state revenue steadily and handling the relationship between accumulation and consumption correctly, we must enable the wages and income of staff members and workers to be raised and the people's consumption to increase gradually. We must hereafter stress and develop the counteraction of consumption on production fully, strive to increase consumption within the limits allowed by production developments, guide consumption actively, regard market demand as the starting point in planning production and promote quicker and better production developments.

But it would also be wrong to neglect the actual and possible conditions of production developments and propose excessive demands for income increases and consumption or even adopt incorrect measures and seek partial or immediate interests. It should be understood that what can be used for consumption can only be products which have been or are able to be produced and the labor which can be provided by society. If social production has not provided the objective the possible conditions, the result of forcing the state to have a

financial deficit, issue more currency or increase its debt in order to increase individual income not only would not raise living standards, but would result instead in prices going up and chaos in socioeconomic life. Similarly, neglecting overall and long-range national interests and relying on methods such as drawing on national finances and squeezing out production development funds in order to seek partial and immediate interests not only would damage the healthy development of the whole national economy in the end, but also would make partial interest difficult to be maintained and realized. China's economy now has a poor foundation to start with and our average per capita national income is low. We are also in an important period of laying the foundation to develop our economy and realize the four modernizations and must use essential financial and material resources to ensure a specific scale and rate of production developments. Under these conditions, the part which can be used each year to increase consumption is limited and can only be increased gradually. If we were to neglect this basic national condition and pursue unrealistically high income and consumption standards, those "early-maturing type consumption" forms which have occurred in certain Third World countries would certainly appear. Although this could make the masses happy temporarily, it could not last for long and the day would come inevitably when we would have to adopt a policy of retrenchment, by which time the damage would be great. We should make every effort to avoid this. A major advantage of the socialist economic system is that the state is able to organize overall balance and realize roughly a proportional, coordinated development of the national economy. We should use and develop the advantages of the socialist economic system fully, maintain a balanced economic development conscientiously and constantly and enable good circulation to continue to be realized between production and consumption.

Faced with the appearance of certain problems in the relationship between China's present social production and consumption, we must take forceful and proper steps to solve them. We think that mastering the following areas vigorously will be extremely important.

1. We Must Deepen Understanding and Seek Unity of Thinking: The Central Committee and the State Council have pointed out the seriousness of the current problems of the appearance of expanded consumption demands and of some units giving excessive wages, bonuses, subsidies and material objects, and have issued appropriate measures to resolve them. But some comrades still lack the proper understanding and think that the problems which have appeared are not really problems. They think that although some departments and units have given more wages, bonuses and subsidies and the state has issued more currency, it has certainly not had any adverse effect on our economic life and that market supplies are normal. They cannot see the existence of the problem of production and consumption being uncoordinated. This view is wrong.

It has been stated above that recent staff member and worker income increases have clearly exceeded improvements in production growth and labor productivity. The major reasons why the consequences of this situation have not yet been exposed clearly in the market are:

First, we have relied on using foreign exchange to import a lot of consumer goods to put on the market and these imported consumer goods have played a definite role in stabilizing the market and withdrawing currency from circulation. Second, the income of many residents has been transformed into cash-on-hand purchasing power. There was a net increase of over 50 billion yuan in the surplus purchasing power of town and country residents throughout China in 1984. Most of this has been deposited in banks while some has been retained by residents as cash. Of course, using foreign exchange to import an appropriate amount of consumer goods has played an important role in enriching the domestic market and regulating the domestic production structure and should still be continued. But excessive reliance on importing consumer goods to withdraw currency from circulation and improve lives cannot last for long in a large country of over a billion people such as China. Moreover, the excessive increase in the surplus purchasing power of residents has created, in fact, potential pressure on the market for future means of subsistence that will be reflected at the first sign of trouble. It should also be seen that socioeconomic life is complex and that some problems will indeed not be exposed fully at the moment they are created but often require a period of time for their effects to become clear. Underestimating the seriousness of problems and waiting for their contradictions to build up and be exposed before solving them will certainly create greater harm. Thus, we must not treat problems which have arisen lightly because the effects which they will create are not yet clear. The major problem now is the need to recognize the appearance of expanded consumer demands. Based on this, all parties should take the whole situation into account, deepen their understanding, see, unity of thinking, handle the relationship between production and consumption correctly and maintain a relative balance between them conscientiously.

Some comrades fear that using measures to control the expansion of consumer demands will affect the enthusiasm of the masses. We think that it is necessary to have a correct view of the problem. The production enthusiasm of the masses must be protected resolutely, the question being what methods should be used to protect it. The way to protect the masses' enthusiasm genuinely is to adopt correct consumer policies, enabling their material interests and production results to be linked appropriately, and not to use the method of "anticipating income." If we write rubber checks, they can never be cashed and will even cause serious inflation. That would truly dampen the enthusiasm of the masses. We must also seek unity of thinking as to whether income differences between peasants and staff members and workers in SEZ's and open coastal cities should be more controlled. If this problem is not solved, people will be dissatisfied.

2. We Must Centralize and Unify Policy and Form a Complete Set of Reform Measures: Major economic policies and especially those involving macroscopic economic balance such as wage, price, financial and credit policies must be centralized and unified by the Central Committee. We must not allow each to do things in his own way or administration to proceed from many areas. We must maintain the relative stability of major policies and provisions and enforce orders and prohibitions strictly. During reform and the period of the new economic system replacing the old, we should pay much attention to

upholding the principle of destroying the old only after establishing the new. Moreover, we must coordinate well the implementation of the commodity economy principle with the destruction of "big-pottism" and not stress working according to the law of value on one hand while asking the state to continue dispensing "big-pottism" on the other.

3. We Must Correct Mistakes Resolutely and Observe Financial and Economic Discipline Seriously: We should clear up conscientiously and examine fully the giving of more wages, bonuses and subsidies which violate relevant state stipulations and not engage in the policy of "not setting precedents" or just going through the motions in requiring outstanding violations to be paid back in full. Those who find it difficult to pay back in the same year can deduct from the wages, bonuses and subsidies which they should be given the following year. All material objects which are given should be counted as bonuses according to their original cash value. Moreover, we must also criticize and educate seriously and even handle publicly those people who are responsible for units which violate state stipulations seriously. Only in this way can the proliferation and development of this unhealthy tendency be curbed forcefully. From now on, all enterprises and administrative units must implement the state-stipulated wage system and stipulations on giving bonuses and subsidies strictly. No unit or individual may extend the scope of raising the standards of giving without authorization and they especially must not invent names as pretexts to give bonuses and subsidies. Higher level responsible departments must not set the precedent of giving bonuses and subsidies arbitrarily on any pretext. The linking of staff member and worker wages with economic results by enterprises is a correct direction which must be insisted on and administrative institutions must also carry out wage reform. This is all in order to implement better the principle of distribution according to work. In specific implementation, all departments, regions and units must act strictly according to state-stipulated policies and methods and not violate them or act on their own without authorization. Moreover, all enterprises, institutions and administrative units must carry out financial system and cash management stipulations strictly and all income must be entered in account books. They must not transfer budgeted income outside of budgets in any form, cut out and retain income which would be turned over to the state or spend funds at will beyond accounts.

4. We Must Develop "Blocking" and "Dredging" Together and While Blocking Runaway Consumption Fund Leaks, Use More Dredging Methods: It is most important in this respect to develop fully the role of economic regulation measures such as tax revenue and banks. For instance, the method determined by the State Council for collecting above-quota bonus taxes should be carried out conscientiously. All those with high incomes, whether workers, peasants or small or large enterprises, must pay progressively adjusted income taxes without exception. We must pay a lot of attention to developing the role of banks fully in the area of the distribution, regulation, bookkeeping, supervision, inspection and management of funds.

5. We Must Strengthen Rule By Law and Economic Supervision: A major reason for the current appearance of the phenomenon of giving excessive wages, bonuses and subsidies is that rule by law is imperfect and forceful economic inspection

and supervision is lacking. The phenomena of no laws to rely on, undependable laws and law violations not being investigated is fairly common. This situation is very unsuited to the policy of invigorating the domestic economy and opening up to the outside world. We must strengthen as quickly as possible economic legislation, the administration of economic justice and financial, tax revenue, credit, price, industrial and commercial administrative and management systems. Moreover, we must strengthen economic inspection and supervision conscientiously. Those who violate financial and economic discipline and other legal stipulations must be restrained by law and given resolute economic and administrative punishment. Ill-gotten wealth acquired by using foreign and domestic price differences, planned domestic prices and market price differences to speculate must be reacquired by the state through effective measures. Only in this way can we ensure that the overall economy is both full of vitality and able to develop in an orderly way.

Overall economic system reform focused on the cities is now developing gradually and comprehensively. During this process, we must free ourselves from old ideas, explore boldly and forge ahead. We must observe unified state plans and stipulations strictly, enable all reforms to be coordinated closely and to be coordinated with and help each other forward, reduce nonessential contradictions and flaws as much as possible, effectively prevent and avoid the unhealthy trend of giving excessive wages, bonuses and subsidies and the expansion of consumption demands and maintain a conscientious balance and coordination between production and consumption in order to ensure the successful accomplishment of economic system reform and promote the coordinated and steady development of the national economy.

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CSO: 4006/959

24 October 1985

PROVINCIAL AFFAIRS

SMALL BUSINESSES FLOURISHING IN GUANGDONG

OW272302 Beijing XINHUA in English 1625 GMT 27 Sep 85

[Text] Guangzhou, September 27 (XINHUA)--Nearly one million self-employed people had set themselves up in small businesses in Guangdong Province by the end of August, a meeting here was told this week.

Together, they had invested more than 700 million yuan in their businesses, the meeting, which was held to praise successful self-employed people, was told.

The three-day meeting was sponsored by the Guangdong Provincial Self-employed Society, a mass organization aimed at promoting self-management and self-education.

China's present policies encourage the state, collectives and individuals to develop service trades.

The self-employed in Guangdong work mainly in industry, commerce, transport, maintenance, catering and medical treatment.

Yang Deyuan, deputy governor of the province, told the meeting: "The self-employed are playing an important role in developing social production, making life more convenient for the people and providing more jobs for the unemployed."

The private sector, which helped to boost the national economy, should be further developed, he added.

CSO: 4020/10

24 October 1985

ECONOMIC DEVELOPMENT ZONES

DISCUSSION OF LAWS NEEDED FOR ECONOMIC, TECHNICAL ZONES

Fuzhou FUJIAN LUNTAN [FUJIAN FORUM] in Chinese No 6, 5 Jun 85 pp 60-61

[Article by Tang Jianyu [0781 1696 1342]: "Cursory Views on Legislation for Economic and Technological Development Zones"]

[Text] This article intends to discuss certain views regarding the problem of economic legislation needed for the economic and technological development zones [ETDZs].

1. Establishment of development zones must be preceded by legislation: The establishment of ETDZs in 14 coastal cities must be preceded by the enactment of certain relevant economic laws and regulations. This is necessary because we see from the experiences of foreign countries with the same or similar types of special economic zones that having sound and complete laws and regulations for the management of special economic zones is an important means to achieve the purpose for which these zones are set up. Our experience with the four special economic zones already established in China at Shenzhen, Xiamen, Shantou and Zhujiang has shown that it is impossible without a sound and complete set of relevant laws and regulations to dispel the apprehensions of foreign businessmen; thus it is also impossible to attract large foreign investments and import advanced technologies. Considering the objective needs for the ETDZs now being set up at the 14 coastal cities, we see that the purpose of establishing ETDZs is to absorb foreign investments and import advanced technologies, as a means to promote the technological restructuring of old enterprises and reorganization of the industrial structure, to revitalize the national economy in the areas in question and to bring about an upsurge in our economy. To effectively accomplish the establishment of the development zones, it is necessary to have not only a compact plan, but also the prior enactment of certain necessary economic laws and regulations. This is not only an important measure to attract foreign investments and safeguard the legitimate rights and interests of investors, but constitutes also a weapon to protect the sovereignty of our state and its economic interests, and, more importantly, the legal basis for the regulation of various complex economic relations of the development zones, and to ensure a smooth development of the various economic activities of the development zones.

2. The construction plan for the ETDZs must rely on legislative guarantees: The purpose of drawing up various economic laws and regulations for the ETDZs

is to render service to the construction of the ETDZs. These laws and regulations must, therefore, conform to the construction plan of the ETDZs, while the materialization of the ETDZ construction plans must at the same time find its guarantees in the various economic laws and regulations drawn up for them. For this purpose it is necessary to consider the following matters: First, the state should promulgate a unified "Law on the Establishment of ETDZs," which must clearly and precisely define the aim of establishing the ETDZs in the 14 coastal cities, the key items of technologies to be imported, differing from place to place, the permissible scope of foreign investments, also differing from place to place, the different policies for preferential treatment, and so on. The formulation of a "Unified Law on the Establishment of ETDZs" that clearly defines the above-mentioned points will prevent irrational or duplicative imports among the various places and would be helpful to achieving a rational distribution of industrial technologies. It would also facilitate our presenting a united stand toward foreign parties, thereby guaranteeing realization of the state's overall strategic deployment in the opening up toward the outside world. Second, based on a unified "Law on the Establishment of ETDZs," the various ETDZs could formulate "Regulations for the Administration of the ETDZs," which would define the purpose for their establishment, the key items for which foreign investment is sought and the extent to which it is sought, the conditions and the scope of limitations to be imposed on the investment of each foreign merchant, the administrative organization within the zone, the various specific items of preferential treatment that will be granted, and so on. Third, other specific laws and regulations should be drawn up, but they must all accord with the principles of dealing with special conditions in special ways, of dealing with new things in novel ways, of simplifying government administration, delegating powers and raising efficiency. The substance of all laws and regulations must fully reflect the spirit of the reform of our organizational system, and legislation must be made to serve our reform and serve the opening up of our country to the outside world.

3. Policies of preferential treatment must differ in substance from place to place: In order to accelerate the process of opening up, to bring about increased and accelerated foreign investments and technical imports and to promote economic development, the 14 coastal cities have one after the other announced certain policies of preferential treatment that they will adopt. However, in the overall view, the substance of these policies emphasizes in most areas tax reductions and exemptions, and there is even much competition arising in this respect. Actually, this kind of preferential policy is not at all effective. The trend in the movement of international capital indicates that the level of taxation does not at all determine the flow of international capital, because low taxation is not of direct benefit for the investor, the direct beneficiary being the state. On the other hand, it is the investment environment and the market for his goods that indeed directly affect the investor and the economic benefits from his investment. It is, therefore, the investment environment and the market for the manufactured goods that are the main factors determining the flow of international capital. If preferential policies, in ignorance of this point, merely consider tax reductions and exemptions, and even competition arises in this respect between the 14 coastal cities, the consequence will only be a case of "fertilizing other people's fields." It will only provide benefits for the governments of the foreign

merchants and will not have the least effect on encouraging investments. This writer believes that in view of the differences in geographic conditions and economic advantages between the 14 coastal cities and their different positions in the overall development of the national economy, there also must be differences in the key items for which they seek investments, in their main tasks and in the technologies they intend to import; thus there must also be differences in the substance of the preferential policies they apply when absorbing foreign capital. For different places, for different technologies to be taken over and for merchants from different countries, one could, therefore, differentiate in the application of different preferential policies, such as tax reductions and exemptions, granting access to parts of the domestic market, reduction or exemption from land use fees, granting low interest or interest free loans or relaxation of foreign exchange controls. If the 14 coastal cities would in different ways institute differentiated policies of preferential treatment according to the particular conditions of whatever place is concerned, and if these policies would be explicitly confirmed in state legislation, this would have greater positive effects on attracting foreign investments to the various places and on the importation of technologies, as it would also ensure these places their due role in the strategic disposition of opening up to the outside world.

4. There must be favorable treatment as well as restrictions for the investments by foreign merchants: To increase quantities and efficiency in absorbing foreign capital and importing technologies, Chinese legislation is granting foreign investors certain preferential treatment, including tax reduction and exemption, access to the domestic market, and so on. However, only granting preferential treatment without imposing restrictions would also not benefit the construction of the development zones. Our legislation for the development zones must adhere to a firm policy of granting foreign investors certain privileges, while also imposing restrictions. It is a generally accepted rule abroad in dealing with special economic zones that certain limits are set through legislation for the scope of investments and direction of business operations of foreign merchants. It is necessary in the interest of ensuring the development of our national economy, of ensuring the advanced nature and usefulness of imported technologies, to ensure the economic interests of the state and the people, that the laws and regulations for the development zones must provide certain restrictive, even punitive provisions, relating to the scope of foreign investments, types of business operations, the goods to be manufactured, the technologies that will be widely adopted, and so on.

5. There must be a combination of rigid and elastic laws and regulations for the development zones: Economic laws and regulations are the standardization of economic policy. To ensure the authoritative character of the various economic laws and regulations for the development zones, reduce apprehensions among foreign merchants and avoid unnecessary misunderstandings and disputes, it is necessary when drawing up the specific content of laws and regulations for the development zones to uphold the principle of rigidity. This demands that the substance of every economic law and regulation must be specific, clear and definite, and accurate in word and print; there must be no ambiguity that could lead to diverse interpretations and misunderstandings. However, we must also consider that the ETDZs are a novelty in China, that our experience

with them is still insufficient and that we cannot prepare beforehand completely effective regulations for specific problems that might possibly arise in the course of actual work. We should, therefore, maintain a principle of elasticity in the form of our legislation of economic laws and regulations for the development zones. These laws and regulations could initially be adopted as "on trial" or "provisional." In this way we would allow for unforeseen circumstances, so that when new problems occur we could promptly change or supplement the relevant laws or regulations. In concrete substance we should maintain the principal of rigidity, but in legislative form we should adopt the principle of flexibility. This combination of both principles would be beneficial for starting out from realities, for regulating the various complex economic relations within the development zones, and ensuring the smooth launching of our work of establishing the development zones.

9808

CSO: 4006/934

ECONOMIC DEVELOPMENT ZONES

PRIORITY TELECOMMUNICATIONS PROJECTS IN EDZS OUTLINED

Beijing RENMIN RIBAO (OVERSEAS EDITION) in Chinese 6 Jul 85 p 3

[Interview with Wu Jichuan, vice minister of posts and telecommunications, by Lu Zhenhua [7120 2182 3478] and Shang Cuiyun [1424 5050 0061]: "Economic Development Zones Enjoy Priority in Telecommunications Construction"; date of interview not given]

[Text] We went to interview Wu Jichuan [0702 1015 0278], vice minister of posts and telecommunications, as soon as he returned to Beijing from a trip to the open cities of Lianyungang, Nantong, Wanzhou, Fuzhou and Xiamen, where he inspected posts and telecommunications construction. He said excitedly, "Wherever I went, the state of posts and telecommunications development was very gratifying. Some sophisticated imported equipment has been put into service; a number of old post offices in urban areas have been totally renovated, and many telecommunications projects are being built round the clock." He added confidently that residents in the 4 special economic zones [SEZs] and 14 open cities would be able to enjoy automatic or semi-automatic telephone and telegram service within this year. Some users will be able to make direct calls or send telegrams at home or in their office to certain nations, regions and large and medium-sized cities in China. They will find such newly installed and advanced equipment as programmed telephones and mobile telephones highly convenient.

As coastal cities are further opened to the world, the Ministry of Posts and Telecommunications has adopted a preferential policy to give them priority in investments, projects and technology import in order to support their telecommunications construction. According to statistics, 44 percent of the funds earmarked for capital construction in posts and telecommunications in 1984 and 1985 have been spent in SEZs and open cities. Key projects include the 1,800-channel carrier project linking Beijing, Wuhan and Guangzhou, and more than 10 cable multi-microwave communications projects linking Nanjing and Shanghai, Shenyang and Dalian, Hangzhou and Fuzhou, Guangzhou, Zhanjiang and Haikou, Guangzhou and Shantou and Jinan and Qingdao. Some of these projects have been put into operation. It is projected that by the end of 1985, there will be a 42-percent increase over 1983 in local telephones in the SEZs and open cities, a 68-percent increase in long-distance circuits, and a 168-percent increase in cable exchanges.

To accelerate telecommunications construction in the SEZs and open cities, the ministry has discarded its old exclusive reliance on state capital and the monopolistic approach toward posts and telecommunications work. Instead, it has entered into joint investment and construction with local governments and relevant agencies. It has also involved users in raising funds, joint-capital management, and systematically attracted foreign capital and imported technology. Of the eight key communications projects in Fujian Province from 1980 through 1984, four were joint ventures between posts and telecommunications agencies and local authorities. Fujian also imported the nation's first programmed telephone exchange system which more than doubled Fuzhou's telephone capacity. Over 3,000 households have been equipped with telephones. It used to take more than 20 minutes to make a call from Fuzhou to Hong Kong; now the waiting period has been reduced to 9 minutes. Since an imported programmed telephone system went into operation in Xiamen, a telephone user can make direct calls anytime to Hong Kong and a dozen cities like Beijing, Shanghai and Fuzhou, even to places in Japan and the United States. With 14,000 telephones, Shenzhen today has the highest telephone density in the nation. The computerized telephone system recently put into use is multi-functional, providing such services as push-button dialing, automatic wake-up calls, three-way communication, and hot-line service. Armed with a handset, you can go anywhere in the city and still be able to know who is looking for you from the digital display. In addition, posts and telecommunications agencies are vigorously using new technology and expanding the scope of their operations to provide services for the economy and for the SEZs and open cities. The vice minister finally said that although posts and telecommunications construction has made greater progress in the past few years than at any other period, our telecommunications capability still lags behind rapidly increasing social needs. Posts and telecommunications agencies, therefore, must develop a sense of urgency and step up their capability as soon as possible so that telecommunications in SEZs and open cities will improve with each passing day to the benefit of the investment environment.

12581

CSO: 4006/966

ECONOMIC PLANNING

ROUNDUP OF DEVELOPMENTS DURING SIXTH 5-YEAR PLAN

HK010509 Beijing CHINA DAILY in English 1 Oct 85 p 4

[Passages within slantlines published in boldface]

[Text] /During China's Sixth Five-Year Plan (1981-1985), finance has taken a turn for the better, national income has risen, the market-oriented economy has developed, the energy industry has been reinforced and grain production has increased.

Following is CHINA DAILY's roundup of such developments based on reports in the Chinese press./

/Finance./ State revenue declined between 1979 and 1981 because huge sums had to be spent to settle problems left by the "Cultural Revolution." But from 1982, revenue rose steadily thanks to a series of new policies.

Revenue in 1982 increased 6.6 percent over the previous year. In 1983, the increase was 11.7 percent. The 1984 revenue increase was 21.1 percent. And the first eight months of this year saw revenue jump 21.8 percent over the same period last year.

At the same time state expenditure, which decreased in 1981 when the state pruned the defence budget and cut capital investment, has begun rising with improvement in finance. Energy and communication industries and education have enjoyed top priorities. Money earmarked for education, science, culture and public health, for example, increased by 14.5 percent annually between 1979 and 1984, well above the average expenditure growth of 5.7 percent in the same period.

In rural areas, the state has coupled drastic increases in the purchasing prices of agricultural produce with cuts or exemptions in agricultural taxes. This explains why farmers' annual net per capita income increased by 166 percent from 1978 to 1984. In cities, per capita annual income of wage-earners' families rose by 92.4 percent in the same period as a result of wage rises and incentive measures.

Localities, businesses and government departments have been made more responsible for the money allotted or loaned to them. Given more power in

their financial affairs, localities and businesses have been stimulated to become more efficient.

For four consecutive years (1981-1984), a balance of revenue and expenditure has largely been maintained.

/National income./ During the Sixth Five-Year Plan, the growth of national income has accelerated. According to estimates from the State Statistics Bureau, 1985's national income will reach 670 billion yuan. The annual increase in national income in the same period has averaged 60 billion yuan, the highest in all five-year plans.

It is balanced relationships between agriculture and industry and between light and heavy industries coupled with improved economic efficiency that have made this possible.

/Market-oriented economy./ Statistics show that, in 1985, the supply of retail goods will double that of 1980. The value of state-purchased agricultural produce is expected to reach 172 billion yuan, more than double that of 1980. Grain purchases will double that of 1980. State purchases of light industrial products will reach 244 billion yuan, 55.7 percent more than in 1980.

These indicators show that the nation's market-oriented economy is developing.

/Energy industry./ To greatly reinforce the energy industry--a bottleneck that is holding up overall economic development--the state has given top priority to the sector. In the five-year period, investments in energy projects already completed stand at 70.5 billion yuan, 18.1 billion yuan more than in the previous five-year plan. Money spent in technical upgrading in the energy industry was 18.8 billion yuan in the first four years of the plan.

These heavy investments are paying off. According to the State Statistics Bureau, during this five year period, the capacity of new generating sets is 19.6 million kilowatts, coal mine production capacity has increased by 84.6 million tons and crude oil production capacity is up 44.9 million tons.

/Grain./ Grain output in 1984, after increasing for four consecutive years, rose to 407.3 million tons, 20 million tons more than the previous year and 102.55 million tons more than that in 1978.

Grain production has also seen a per-hectare output rise, a per-labourer production increase and a rising ratio of grain for marketing.

CSO: 4020/12

ECONOMIC PLANNING

CHINA DAILY COMMENTATOR ON SEVENTH FIVE-YEAR PLAN

HK260305 Beijing CHINA DAILY in English 26 Sep 85 p 4

[Article by CHINA DAILY commentator: "Blueprint for Success"]

[Text] The Seventh Five-Year Plan proposal approved by the just concluded National Party Conference, together with Premier Zhao Ziyang's expository statement, is being made public today. As an outline of the guidelines for the plan, it charts China's course of development in the next five years, a period crucial to the national effort to reach the goal of quadrupling 1980 industrial and agricultural production value by the end of the century.

A basic turn for the better has now been achieved in financial and economic operations as a result of the reforms of the last few years. The national economy is embarking on a path of sustained, steady and well-co-ordinated growth. It has been proved that reform is the key to the solution of China's problems. Only reform can bring about new advances. Though it may also give rise to some new problems, it will lead to new breakthroughs. So long as the socialist public sector of the economy predominates and common prosperity is assured, full-scale reform, which is exactly what China needs, should press ahead.

Reform is the foundation of the proposed Five-Year Plan. All the outdated practices in the existing establishments that hinder the productive forces must be removed and new forms of effective management introduced instead if the economy is to continue its current growth. While firm and unswerving in orientation, reform must be made by sure and concrete steps. This will ensure that it causes the least disorder and strain.

The proposed plan sets as its target laying the groundwork for a new-type socialist economic fabric with Chinese characteristics. Attaining this depends largely on whether thorough reform takes effect in all fields.

Aside from improving management of enterprises, the proposed plan stresses quality and efficiency rather than quantity and speed in regard to economic construction. It is a sound decision.

Our economic achievements formerly were measured primarily in terms of growth rate and the amount of production. Inadequate attention was paid to quality

and the actual good accruing from economic performance. When all went well for a little while, people were apt to be carried away and would quicken the pace of development. The result was social convulsions. As industries developed too fast in the last quarter of 1984 and first half of this year, a good deal of strain was put on energy resources, communications and supply of raw materials. The proposed plan calls for action to control the pace.

Experience has demonstrated that the best way to accelerate modernization is to maintain a proper rate of growth while giving top priority to quality and economic return.

Opening up to the world is a cardinal policy of our country. During the period of the Seventh Five-Year Plan, this policy will be further advanced and trade and economic and technological exchanges with other countries will be strengthened as a matter of course, something which can produce mutual benefits for China and respective countries.

The proposed Seventh Five-Year Plan has been worked out based on actual conditions in China. It has set realistic targets, which will surely be conducive to successful execution.

With the promotion of young and better educated cadres to leading posts, a guarantee is provided for the continuation of China's policies. When at the end of five years, the planned tasks of reform are achieved and the economy developed on a sound basis, the target for the end of the century will surely be met.

CSO: 4020/12

RESOLVING ISSUE OF RURAL, SMALL TOWN ENTERPRISE FUNDS

Xi'an SHAANXI RIBAO in Chinese 20 Jun 85 p 2

[Article by Zhao Tianzhen [6392 1131 2382]]

[Text] After the State implemented macroeconomic controls on loans this year, various localities reflected that "it is difficult to operate an enterprise when short of capital." Focusing on resolving the issue of funds in rural and small town enterprises has thus become an urgent task.

Developing cooperative enterprises can expand the pooling of capital. These enterprises are initiated by peasants who voluntarily participate for mutual benefit, each contributing labor, funds or materials, a key method for settling the issue of capital shortage. In Doumen Town of Changan County, six peasant households pooled 3,000 yuan in capital to establish a children's clothing factory. Now it has increased capital to 50,000 yuan and employees to 160 persons; its subsidiaries are spread over 7 townships and 13 villages, and its 50 lines of products are sold in 4 provinces: Shaanxi, Gansu, Qinghai and Shanxi. Last year in Shaanxi, there were 90,000 family and cooperative enterprises with a total capitalization of 130 million yuan, accounting for better than 20 percent of the total income of all rural and small town enterprises in the province. The facts indicate that if Shaanxi were to give priority to and conscientiously stress the development of cooperative enterprises, it could tap potential financial and material resources and expand pools of capital in rural villages, greatly speeding the pace of progress for rural and small town enterprises.

Restructuring existing enterprises is another way to attract capital. After several years of development, the 40,000 existing enterprises in Shaanxi established by former communes and production brigades have become a backbone of the province's economy.

But because of "leftist" ideological influence, peasants have not obtained optimum benefits. They show no concern and are not supportive. Enterprises lack vitality, frequently relying on loans for support. These enterprises are very much in need of reform. Mian County tackled this job in 17 villages, adopting dissolved-partnership joint management methods to transform "micro-national" [xiaoguanmin 1420 0356 3046] state-run enterprises into cooperative member shareholder enterprises run by local people, in which everyone could

become a shareholder and every household obtain dividends according to the amount of money paid for shares. Once they realized the benefits, peasants started streaming in to register as shareholders, which quickly attracted 3 million yuan and started up a large number of enterprises. The Mian County experience sent shockwaves throughout China. Over the past year, 3000 representatives from a dozen provinces and cities have come to investigate and learn from Mian County. If other localities in Shaanxi could obtain a breakthrough in this area, they could attract vast pools of idle capital from rural villages for the development of rural and small town enterprises.

Still another method to tap capital is through transferring technology inward and integrating outward. Rural and small town enterprises are "small yet complete," comprising five main types: transportation, construction and building materials, planting and husbandry, tertiary industries and industrial enterprises, supplying society with 5,000 kinds of products. If each locality could bring in science and technology and draw support from the superiority of large-scale industry, selecting strengths and avoiding weaknesses, using what they can to develop vertical and horizontal coordination in businesses and in the economy, then enterprises will experience tremendous development. Chenggu County has relaxed its policies over the past year to attract externally and coordinate internally by organizing some 190 cadres to go to other parts of the country to investigate and make connections. The county magistrate personally brought production lines for brick ice-cream, dry cleaning machinery and other products from Shenzhen, for an investment reaching \$680,000. They also joined with Hanzhong Trading Center, Baoji Printing and Dyeing Plant, Anshan Bicycle Factory and other state-run enterprises to handle production items such as food and beverages, top quality clothing, and bicycle parts and accessories. By adopting a variety of incentives such as offering shares to workers, stock dividends, awards for investments and the providing of sites, they have achieved remarkable results in encouraging outsiders to come in and set up enterprises in Chenggu County. Gross income in the first quarter of this year for these rural and small town enterprises reached 13 million yuan, more than double the amount for the same period last year.

12888

CSO: 4006/858

ECONOMIC PLANNING

'REMARKABLE ECONOMIC REFORM' IN SUIZHOU CITY REPORTED

Beijing RENMIN RIBAO in Chinese 4 Aug 85 p 1

[Article: "Suizhou City Obtains Remarkable Results in Comprehensively Reforming Its Economic Structure, with Machinery, Textiles, Chemicals, Building Materials and Foodstuffs Shaping the Initial Industrial Structure and by Developing Agriculture and Industry Simultaneously, Integrating Cities and Countryside, Implementing Overall Planning and Coordinated Development"]

[Text] According to HUBEI RIBAO, Suizhou, a key town in northern Hubei, is making remarkable progress in the comprehensive reform of its economic structure. An open, network-outlet type of economic structure is taking shape where agriculture and industry have developed simultaneously, urban and rural areas are integrated, and overall planning is utilized to coordinate development. Last year, gross industrial and agriculture output value for the city rose 230 million yuan, doubling a year ahead of schedule. This year, the city's economy is continuing to develop steadily, with machinery, textiles, building materials, chemicals and foodstuffs initially forming the foundations of its industrial structure.

Suizhou City was established in 1979, and in October 1983 was merged into the county. Last year, both the provincial CPC committee and the provincial government turned Suizhou City into a pilot project for comprehensive economic reform for all county-level cities in the province. In addition to implementing individually-listed strategies, they also placed the city under the jurisdiction of the provincial government. Based on investigative research, this has turned the city into a hub by simultaneously developing agriculture and industry, placing equal emphasis on town and country and implementing overall planning to coordinate development; this has gradually built Suizhou into a comprehensive base for agriculture, industry and commercial products.

To implement this strategic plan, Suizhou City first followed the course of smoothing urban and rural relations and eliminating horizontal-vertical and upper-lower barriers among government levels and establishing a new leadership and management framework that integrates town and country. It also did away with management by rural committee and finance departments, trial-implementing a deputy-mayor post, and combining the economic committee and planning committee to form an economic planning committee, no longer controlling enterprises directly, and thereby eliminating superfluous links

in management. At the same time, it elevated eight units, including the cotton company and the municipal chemical fertilizer company, to the status of substantive companies with the mechanics of an enterprise, injecting vitality into these enterprises; it established closer relationships between urban and rural areas and among all levels of government; it implemented overall planning to coordinate and monitor economic construction in cities and the countryside, and it provided a variety of services. The municipal mining company integrated with peasants from the Huaihe region to handle iron ore. Under the old system, they would have had to spend months dealing with the rural committees, economic committee, and planning committee and nearly 10 "grannie" agencies. Today, however, the economic planning committee has the final say, and resolves issues with dispatch to get production started up promptly. The annual output value of iron ore is 2.4 million yuan, and the net income is 1.2 million yuan. Suizhou now has 10,500 urban and rural industrial enterprises, of which all but 200 are rural industries. The city's output value of these enterprises has made immense gains.

Making use of the overall advantages created by stirring up cities and countryside after its county-city merger, Suizhou enhanced its effectiveness as a multipurpose city, spreading out toward rural areas through product expansion and specialized coordination to establish integrated associations composed of various types, levels and scopes, forming a network of industrial economics, commodity circulation, transportation and science and technology, accelerating coordination and development in cities and countryside. By putting five levels, i.e., cities, towns, villages, integrated associations and family industry to work all at the same time, and by using product technology flow to organize production without distinguishing between urban or rural or between the natures of economies, Suizhou City has been able to develop horizontal connections as well as integrate various economic techniques.

The Hubei Gear Factory, a provincial enterprise which had been transferred to a lower administration level, took the lead in building branch plants in Hongshan, Junquan, Hedian and other districts and towns to spread labor-intensive products and techniques. Last year, the gear factory realized an output of 11 million yuan, double the amount registered the year before, without expanding its factory or adding to its labor force. Profits were 1.8 million yuan, and taxes on profits, 1.04 million yuan [sic]. This experience has provided an impetus to industry in the city to expand toward rural villages. To June this year, there have already been 17 city industries which have distributed 17 of their in-house products, 170 parts and accessories and 3.2 million pieces to 55 plants in 14 districts, supplying 85 pieces (sets) of equipment, 430,000 yuan in capital, and training 422 persons. Just this effort can increase annual output value by 16.6 million and create an additional 1.5 million yuan in taxes on profits. At the same time, it also provided jobs for surplus labor, allowing 1200 persons to enter factories as workers.

In addition, product circulation, transportation, science and technology have kept pace, giving Suizhou a brimming vitality. The city created and developed 650 new products in succession. A large group of products from rural and small town enterprises made their way into international markets.

Over the past year, Suizhou has developed market towns along the lines of trends in economic planning, providing energy for urban expansion on the one hand and becoming a hub for supplying a variety of services for villages on the other. They have attracted, pooled and developed latent rural village manpower, financial and brainpower resources, relying on peasants to build and strengthen towns. Simultaneously, they have implemented amalgamation of districts and towns, so that towns can lead villages and hamlets. Now, Suizhou has 86 market towns both large and small. These market towns are like "sponges", absorbing 130,000 surplus laborers. In addition to having individually-owned commercial households in these market towns, peasants also pooled capital to build 703 factories and 503 commercial enterprises. The construction and development of market towns has integrated the economy of cities and towns, and the gap between industry and agriculture is steadily shrinking.

12888

CSO: 4006/858

SHENYANG ENTERPRISES ORDERED TO SHAPE UP OR CLOSE DOWN

Beijing RENMIN RIBAO in Chinese 4 Aug 85 p 1

[Article by Zhou Baohua [0719 0202 5478], XINHUA wire 3 Aug: "Shenyang Issues Bankruptcy Warnings to Three Enterprises; It Will No Longer Permit Badly-Managed Collective Enterprises That Suffer Consecutive Annual Losses To Continue 'Eating from the Same Big Pot;' Enterprises Ordered To Turn Around Within One Year or Else Officially Announce Bankruptcy"]

Shenyang Municipal Commerce Administration has issued "bankruptcy warnings" to the Explosion-Proof-Tool Plant, the Hardware Foundry, and the No 3 Agricultural Machinery Plant, ordering these three enterprises, which have had consecutive years of losses stemming from bad management, to turn around within one year or else file for bankruptcy. This is the first such notice served by the city according to the requirements stipulated by the "Temporary Regulations Concerning Bankruptcies in Industry and Enterprise Operating Under the Collective System."

There are now 3,000 collective industries and enterprises in the Shenyang municipal area. For many years, this city relied upon administrative decrees to merge a handful of debt-ridden, badly-managed collective enterprises which were operating at a loss for long periods of time together with profit-seeking enterprises. At the start of this year, after conducting investigations and research, the Shenyang Municipal Government decided to put a stop to the way everyone was "eating out of the same big pot" by formulating a set of regulations dealing with bankruptcies in collective enterprises.

After promulgating these regulations, 11 industrial management units and some creditors filed for bankruptcy for a large group of enterprises. After investigation and verification by the Commerce Bureau, it was decided that the Explosion-Proof-Tool Plant, the Hardware Foundry and the No 3 Agricultural Machinery Plant were indeed at the brink of bankruptcy. Of these three, the first was the worst off, its management in a state of chaos and operations in the red ever since 1978. The enterprise had less than 300,000 yuan in assets, yet owed nearly 500,000 yuan to more than 240 units.

The plant managers of these three enterprises have stated that their companies will undergo a thorough turnaround within the time limits imposed in the "Bankruptcy Warning Notice," or else freely accept the consequences.

12888

CSO: 4006/858

24 October 1985

FINANCE AND BANKING

TIGHTENING OF CREDIT NEEDED TO 'PREVENT OVERHEATING OF ECONOMY'

Beijing ZHONGGU JINRONG /CHINA'S BANKING/ in Chinese No 7, 4 Jul 85 pp 2-5

/Article by Chen Muhua /7115 1970 5478/ excerpted from a speech made on 16 May 1985 at a symposium of Industrial and Commercial Bank and Construction Bank Branches: "Work Hard To Strengthen Further Macroeconomic Control"/

/Text/ Finance and banking work is facing a daunting task. Several ideas are put forward here about the present situation and tasks in financial work, and on how to do a good job.

I. The Present Situation in Finance and Banking Work

Banks at all levels have made definite progress in carrying out State Council instructions on strictly controlling the amount of credit and the issuance of currency. April 1985 was the month in which more currency was withdrawn from circulation than during the same period in any other year. Several reasons account for this as follows: 1) The fairly good situation in commodity sales. In April 1985, cash earnings from commodity sales were 32 percent higher than in the previous year, the highest rise for the same period in any year. 2) A 45 percent increase over the same period in 1984 in cash earnings from the service trades. 3) An increase over 1984 in city and town savings accounts. 4) Strict control of ill-advised loans, loans of working capital to industrial and commercial enterprises declining substantially as compared with the same period in 1984. 5) The adoption by public finance of measures to increase receipts and conserve on expenditures, cash on hand in public finance organizations increasing over the same period in 1984.

Currently existing problems are primarily the following:

A. Continued expansion in the amount of investment in fixed assets. While Construction Bank capital construction deposits on hand in the People's Bank declined greatly, Construction Bank issuance of loans using credit funds greatly increased, primarily for the reason that the scope of capital construction had not been brought under control. The "real loans, real savings" fund-control method instituted in 1985 permitted the People's Bank to control loans to several other specialized banks in accordance with plan, but this method has not yet been instituted for the Construction Bank, so it cannot be controlled.

A tremendous decline in capital construction deposits on hand, a sharp rise in Construction Bank use of credit funds to issue loans, continued expansion of the amount of capital construction, overly rapid development, and inability to control consumer funds seriously upset the credit balance, ruptured the amount of credit for 1985 and hurt plans for the issuance of currency.

B. Constant shortage of rural funds. Once the People's Bank and the Bank of Agriculture had taken action, funds required for the purchase of agricultural and sideline products and for spring plowing and production substantially met needs. Though agricultural loans during April 1985 increased somewhat over the same period in 1984; still, the shortage of funds in some areas has yet to take a turn for the better. The main reasons have been: Village and small town enterprise loans increased too fast, exceeding by 49 percent the plan for the entire year during the first 4 months of the year and taking away some funds from other things; some places used business loans that had been paid back to issue loans to village and small town enterprises, thus hurting needs for funds for the purchase of agricultural and sideline products; a rise in the amounts of grain and cotton in storage also tied up bank loans, and this adversely affected the normal circulation of credit funds; ineffective management of funds by specialized banks was yet another reason.

C. Consumer funds have yet to be fully controlled. Issuance of the State Council notice on control of consumer funds had a certain effect; however, bank cash payments for wages in April increased 23.3 percent over the same period in 1984, and were also greater than cash payments for wages in March.

Basically, it was the speed of economic development that gave rise to this state of affairs. As one of the three major economic levers (prices, taxes, and finance and banking), finance and banking work carries a heavy burden.

II. Necessity for Strengthening Macroeconomic Control

Banks are responsible for the mission of strengthening centralized control and overall balance of credit funds, the better to serve macroeconomic policy decisions.

When we say that the position of banks in building the national economy is constantly rising, that is to say that with implementation of the policies of opening to the outside world and enlivening the domestic economy, as reform of the economic system becomes more pervasive, banks must play an increasingly active role. Only by playing this role to the full can expression be given to the rise in the position of banks.

The economy is expanding very rapidly now, and this is good. However, if the speed is too great, this will place great strain on energy, transportation, processed raw materials and funds. If this strain becomes too tight, it will become difficult to continue and things will go in the opposite direction. Consequently, we have to intensify controls further so that economic construction will proceed at the proper speed. This is the only way in which the national economy can have sustained, steady and coordinated development. The faster China's economy develops, the more controls will have to be strengthened. Only when control is attained will it be possible to enliven the microeconomy.

Strengthening of macroeconomic control now requires disposing of ideas about "eating out of banks' large common pot." This mentality exists not only in units that use funds but in banks themselves.

The former economic system accustomed everyone to a supply system and eating out of a large common pot. Now the pot of public finance has a lid on it, and one cannot blithely eat out of the large common pot of public finance. Nevertheless, it takes funds for construction and development. With the way to public funds being blocked, people turn to the bank pot to dig. Some people advocate not being afraid to do business without capital and not being afraid to go into debt. Thus, when they ask for bank loans they show no regard for conditions; they do not place a limit on the amount; they do not fix a time period; and they are unconcerned about the proportion of funds to be put up by themselves. Why do they not fear going into debt? Because they have found a "law." Banks in socialist countries cannot force them to run. If worse comes to worse, "loans will be recovered through forced sale" and that will be the end of it. This had been a common occurrence in the past. Moreover, when they make a loan request, they always have a pile of "reasons." If you do not loan the money, then you will be blamed for not supporting them in enlivening the economy; or it will not be consistent with the spirit of this or that, etc. If the bank offers various reasons to explain why it cannot make the loan, they will not look for ways to improve through administration and management, and as soon as they say: Without the loan, the plant will have to close and the workers will cause trouble, the bank can only hand over the money obediently. Therefore, some economists tell us that under present circumstances, banks and enterprises are in unequal positions. Enterprises have a "natural right to exist," and once they open, they should remain open forever with no questioning of results. Banks are in a lower position; they must always "grant whatever is requested."

The large common pot mentality among banks themselves is also fairly serious and is manifested in many ways. One way in which it was manifested was in the net loan base figures at the end of 1984. Second was the lack of conviction, the unwillingness to proceed from realities, refusing to make loans when loans should not be made. Third was insufficiently rigorous examination of loan requests, supposing that since the loans were for state-owned enterprises or collective enterprises, whether or not checking was done did not make a great deal of difference. There was also the notion about loans for individual enterprises and for individual households, that inasmuch as such loans were being encouraged, there was little that could be done but issue the loans without trying to understand or analyze the benefits or results from the issuance of loans. Fourth was the failure to establish strict responsibility systems in banks. In some places, authority to examine and approve loans was delegated too far downward, credit personnel being entirely responsible for deciding whether or not to make loans, with no responsibility being fixed when loans went sour and the bank sustained losses. Certainly, there were some cases brought about by unhealthy tendencies.

We believe that since the state has given us great banking and financial authority, we should accept responsibility seriously and earnestly. The State Council has issued "Loan Contract Regulations," which are our guiding principles

for doing loan work well. They should be vigorously publicized and diligently carried out. When various improper situations occur in doing loan work, one should dare to combat those that ought to be combated, and those that should be controlled ought to be controlled forcefully and forthrightly.

Of course, our "struggle" and "control" should be founded on fine service. In a broad sense, banks are also a service trade that serves party programs and policies, that serves in building the national economy, and that serves the broad masses of people. Our service has to be concrete rather than abstract. For example, when a certain place wants to develop a certain project and asks a bank for a loan, we must provide information, telling them that this project is genuinely urgently needed and has good prospects for development or that it is duplicatory and of no economic benefit. Second, is the need for them to determine whether amount of the loan is right and how to attain good economic results. Finally is concern about their methods of operation during and after project construction, and promptly recovering the loan funds when the time arrives for repayment, or providing a new loan promptly if extension of credit is genuinely required. In short, it is necessary to take an interest in and to participate in project construction and management. Only by so doing is it possible to meet Comrade Xiaoping's call that "banks have to take hold of the economy and banks have to genuinely become levers for developing the economy and for the replacement of technology, banks really have to be run like banks."

We are currently a long way from genuinely meeting this need in terms of mental perceptions, structural organization, and quality of personnel. The first problem to be solved is mental perceptions. We have to get away from the habitual way in which banks do things that grew up over a long period of time in the past. Simply stated, this habitual way of doing things was for banks to "receive and pay out large sums." Banks "receive and pay out large sums"; however, to do this and nothing more is very inappropriate to the needs of today's situation. Therefore, we have to raise our perceptions of the importance of banks. Everyone has to think earnestly about this problem and to seek the patterns and methods for doing bank work that is consistent with China's circumstances.

Both the Industrial and Commercial Bank and the Construction Bank have work achievements. Both the main offices and branches have done a lot of work, and this should be acknowledged.

In terms of the situation that we sketched earlier, the tasks of these two banks this year are extremely arduous. As a result of the speed problem and the overly large size of investments in fixed assets, as well as because of organizational problems, the Construction Bank's amount of credit for this year has not yet been made a part of the state's overall credit plan. Furthermore, possible because of problems in the work of the Construction Bank, the size of credit for the Construction Bank has not yet been brought under control and is still continuing to expand. Unless this "lion's share" is brought under control, it will not be possible to bring under control this year either the amount of credit for the whole country or the amount of currency issued. If this happens, it will hurt the overall situation of the national economy. If cutbacks are made in capital construction, the effects will ripple over a wider

area and the wider the area the greater the ripples, and possibly another major readjustment will become necessary. Unless capital construction is controlled troubles will ensue. The Construction Bank has to do some serious analysis of problems that have occurred during the first half of the year and make some changes very rapidly. We must handle these problems conscientiously and pool the wisdom and efforts of everyone to solve them. It is hoped that everyone will act quickly, go down to the grassroots and go into projects to carry out investigation and study and to propose measures for improvement. We also ask that everyone report circumstances promptly, pass along information, and report progress on work and problems encountered when they happen and where they happen. Certainly, there are some problems that sole reliance on banks cannot solve; therefore, coordination with all sectors and governments in all jurisdictions has to be sought and joint efforts made. However, the banks must bring into play their subjective dynamic role, work positively and actively, not wait for others to act, and absolutely not wait passively.

The amount of decline in loans by the Industrial and Commercial Bank for January through April 1985 has been only one-fifth that for the same period in 1984. The situation does not permit optimism. Therefore, it is necessary to examine and consider problems throughout the year, prepare well for work during the second half of the year, and guard against possible trouble.

III. What Specifically Should Be Done?

During March and April 1985, the State Council issued notices on control of the amount of capital construction, consumer funds and loans for village and town enterprises. When we were just about to begin control, some places screamed that you always practice "arbitrary uniformity." In fact, there is no "arbitrary uniformity in either our guiding thought or in our actual ways of doing things. We always make a concrete analysis of concrete problems, and give active support to things that deserve support while resolutely controlling things that ought to be controlled. The problem is the existence of the notion that "you want things in a hurry, but do not hurry for me; you are large, but I am not; and you have much, but I do not." People even say that only if your bank gives me a bigger loan will I hurry up. This is to stand matters on their head. Our guiding thought is still macroeconomic control and microeconomic invigoration. The two are mutually complementary.

There are two main parts of control. First is further strengthening of controls. This means guarding against "arbitrary uniformity" in doing things, handling concrete problems in concrete ways, and decreasing side effects to the lowest level. Second is striving to do work meticulously, striving to solve problems fairly and sensibly, and striving to do a good job, and we have conditions for doing a good job. Whenever lower echelons raise problems, there can be no bureaucratism but rather going out to investigate and study. "Complaints" have to be questioned and "complaints" have to be checked. Problems that should be solved have to be solved, with the emphasis on holding down capital construction.

Decisive action has to be taken on the problem of the size of investment in fixed assets, the amount of Construction Bank credit being held within plan.

First, the Construction Bank's plan for savings deposits in the People's Bank has to be fulfilled and drawdowns of deposits have to be restored. Plan increases in savings deposits also have to be made up. Second, use of loan funds for the issuance of credit must be controlled within plan norms. Third is implementation effective 1 July of a centralized loan fund control method whereby all capital construction funds will be made a part of credit plans and placed under control of the Chinese People's Bank.

Measures for control of the shortage of rural funds. First, the People's Bank has already turned over to the Bank of Agriculture for its disposition all loan funds paid by the Bank of Agriculture to the People's Bank for this year minus the overage remaining from the previous year. Second, all People's Bank branches have been given norms for planning temporary loans to be used for temporary adjustments in supporting procurement of agricultural and sideline products. Third, in the case of village and small town enterprises under construction that will produce good economic results, projects requiring small amounts of funds, or projects that have already been built but that are unable to go into production for lack of circulating funds, preparations are underway to use "high interest loans" to solve the problem.

Fourth, the Bank of Agriculture in all jurisdictions must do everything possible to organize savings deposits and to recoup loans that should not have been made in order to increase their sources of funds.

Consumer funds are to be controlled at the base figure for March, more cuts or some restoration to be made following a decision on the total figure after the Ministry of Labor and Personnel holds a meeting.

All jurisdictions and all sectors are to institute conscientiously the foregoing concrete measures, particularly banks at all levels. When problems are encountered, instructions should be requested at once and reports made. We have to keep our eyes wide open, keep them fixed on circulation of funds, and under no circumstances may we impair macroeconomic control and building of the entire national economy as a result of mistakes in our work.

Doing a good job this year will be genuinely difficult. This is an objective reality and not to admit this reality is to be unrealistic. Circumstances can break one or make one. Only when there are difficulties can we toughen ourselves in the process of surmounting difficulties and grow in intelligence and resourcefulness. It should be said that former days when loans were issued with an open hand were not normal and they are gone never to return. For a fairly long time to come, because of expansion in building the economy, contradictions in shortages of funds will be fairly prominent. How to free up funds and enliven the economy under these circumstances will be a test of our abilities. And it is precisely in this regard that we have been found wanting in the past. I hope that comrades will face realities bravely, will use their brains, will summarize experiences at once, and take a road in banking and financial work that suits China's circumstances. We have to strengthen relationships among individual banks and throughout the entire banking and financial system, help out each other, coordinate work, and do a good job together of China's banking and financial work to make a contribution to the socialist four modernizations.

FINANCE AND BANKING

AGRICULTURAL BANK LOANS AID RURAL ECONOMY

OW241804 Beijing XINHUA in English 1516 GMT 24 Sep 85

[Text] Beijing, September 24 (XINHUA)--Peasants borrowed 223 billion yuan to finance collectively- and family-run businesses in the four years up to last year, the Agricultural Bank of China said today.

Up to the end of August this year, 20 billion yuan more was lent to rural businesses compared with the same period last year, a bank official said.

This was despite the fact that the state tightened control over credit earlier this year.

Peasants can invest in enterprises as shareholders, and are encouraged to run businesses with a collective.

To promote the rural economy, banks throughout the country have increased the variety of credit on offer, and have created new customer services. The number of types of credit doubled during the 6th Five-Year Plan (1981-1985).

Meanwhile, saving deposits in agricultural banks totalled 102.8 billion yuan at the end of 1984, compared with 44.2 billion yuan four years earlier, the official said.

The agricultural bank and credit cooperatives, which used to provide the main financial support for communes and production brigades, now offer services to most peasants.

More than 90 percent of peasants in economically-developed areas now have deposit and credit accounts with local banks or credit cooperatives.

CSO: 4020/10

FINANCE AND BANKING

BRIEFS

TAX RECEIPTS JANUARY-AUGUST UP THIS YEAR--Beijing September 30 (XINHUA)--China's tax receipts amounted to 125 billion yuan in the first eight months of this year, an official from the Ministry of Finance said today. Tax receipts are expected to be 174 billion yuan this year, 12 billion over the annual plan of 162.18 billion yuan. Last year, receipts were 93.8 billion yuan. Since October of 1984, China has completely replaced the profit delivery system with a tax payment system for state enterprises. The tax rate on products has been adjusted and taxes on resources and municipal construction have been added. A tax system which can flexibly regulate production, circulation, and consumption has now been established in China. [Text] [Beijing XINHUA in English 0810 GMT 30 Sep 85]

INTEREST RATES STIMULATE SAVINGS--Beijing September 20 (XINHUA)--Private savings accounts in China rose by 2.0025 billion yuan in August as interest rates rose on August 1. Biggest increase was in fixed deposits, that jumped almost 60 percent over the increase for the same period last year, according to the Industrial and Commercial Bank of China. Savings deposits reached 83.4 billion yuan by the end of this August. Of this, 78.37 percent was in fixed deposits and 21.63 in current deposits, the bank announced. Savings accounts in the first eight months of this year rose by 16.3 billion yuan, a rise of 4.5 billion yuan over the increase for the same period of last year. [Text] [Beijing XINHUA in English 0721 GMT 30 Sep 85]

INSURANCE BUSINESS PROSPERS--Beijing, September 24 (XINHUA)--The Chinese People's Insurance Company has paid two billion yuan in claims and 1.1 billion yuan in taxes to the state over the past five years. The domestic insurance business, which was stopped during the Cultural Revolution, started up again in 1979. Now 120 types of policies are being written, including property, pensions, medical, and loss of crops and animals in natural disasters. Forty kinds of policies involving international insurance, including cargo shipping, offshore oil exploration, nuclear power and overseas insurance transactions, have been developed over the past five years. The Chinese People's Insurance Company with 2,100 branch offices has paid out 75 million yuan on natural disasters in the five year period. Profits in the first half of this year came to 600 million yuan on policies worth 411.5 billion yuan. [Text] [Beijing XINHUA in English 1520 GMT 24 Sep 85]

CSO: 4020/10

INDUSTRY

NEW COMPUTER SPEEDS INPUT OF CHINESE CHARACTERS

HK020637 Beijing CHINA DAILY in English 2 Oct 85 p 5

[Article by Shen Feiyue]

[Text] A new and simplified method of computerizing Chinese characters has been developed by a privately operated firm here in a discovery that has been hailed as a breakthrough toward popularizing microcomputer technology in China.

The invention has aroused interest among foreign researchers and entrepreneurs and focused attention on the 35-year-old developer, Cui Wei, chairman of Shanghai Pioneer Hightechnology Ltd.

"Any literate person can learn to operate a Chinese-language microcomputer in a few minutes using my machine," the developer declared.

Cui's invention is also being heralded as a vast improvement over the more than 400 published Chinese character input systems, many of which require an operator to memorize where more than 150 selected radicals, or "roots," are grouped and placed on a standard keyboard.

But now, under the non-coding Chinese character input system created by Cui and his associates, one simply has to input the first two strokes of a Chinese character--a dot, a horizontal line, a vertical line or a slant to the right or left--and place these on the numbers 6, 7, 8, 9, 0, on a standard keyboard. The computer instantly displays on the screen all the radicals or even characters--at most 32--with the same first two strokes. Each has an English letter or a numeral under it, and on pressing these, the desired radical or character will be called up. If the radical is only part of a character, other parts, will be called up to make a character.

"We have so arranged the system that in general use, out of 1,000 pushes, 500 will call out most commonly used characters that need only one or two pushes," Cui said.

How did Cui work out his system?

He analysed 6,763 of the most commonly used Chinese characters, and sorted them into 700 radicals, which then were grouped into 29 regions, each containing at most 32 radicals or even words.

Of the 29 regions, 25 are displayed on the screen by twice pressing the keys numbered 6, 7, 8, 9, 0, while four others are called out by pressing another key.

The keys of 26 English letters and six punctuation marks are used to call up the most commonly used Chinese characters and radicals, which ensures one or two [garble] characters.

The most complicated among the 6,763 characters requires six pushes.

"We try to replace the memorizing effort by letting the computer indicate where the desired character is on the screen," Cui said.

At classes sponsored by the Cui's company and Shanghai Television Station, many novices mastered the new system in about five hours or one-fifth the time required by other systems.

At an appraisal seminar, several specialists noted that "Cui's system opened new vistas in the research of suitable Chinese character input systems and would help popularize micro-computer technology in China.

Cui's treatise--"Evaluation of Chinese Character Keyboards"--appeared in the January issue of THE COMPUTER, a journal of the Institute of Electrical and Electronics Engineers.

Cui showed his talents in electronics even as a teenager. After class, he would indulge himself in assembling transistor radios and radio-controlled model airplanes. In 1975, he joined the Shanghai Post and Telecommunication Institute, where he worked on simplifying Chinese telegraph codes. His experiments prompted him to try a non-coding Chinese character input system for computers.

With support from the Shanghai Municipal Government, Cui and his colleagues are now working to popularize the system.

CSO: 4020/12

CONSTRUCTION

JPRS-CEA-85-093
24 October 1985

BRIEFS

BANK LOANS FOR RURAL ROADS--Jiangsu Province will make use of a loan from the World Bank to build and repair a number of rural roads. The World Bank has recently lent China \$72,620,000 to be used mainly for the construction of rural roads in Jiangsu, Anhui, Fujian, Jiangxi, Shaanxi, Shandong, Yunnan and other provinces. The total amount of loans at this time for Jiangxi was \$6,448,000 of which \$4,690,000 will be used for construction of 11 rural roads totaling 261.7 kilometers in length. [Text] [Hangzhou ZHEJIANG RIBAO in Chinese 23 Jul 85 p 1] 12888

CSO: 4006/858

DOMESTIC TRADE

ROLE OF INLAND CITIES IN OPENING NATION TO OUTSIDE WORLD

Chengdu SICHUAN DAXUE XUEBAO [JOURNAL OF SICHUAN UNIVERSITY] in Chinese No 2,
Apr-Jun 85 pp 3-7

[Article] by Peng Tonghu [1756 6639 3275]: "The Inland Urban Economy and the
Opening to the Outside World"/

[Text] Since the 3d Plenum of the 11th CPC Central Committee, China has pursued a policy of opening to the outside world as appropriate. As the economy has expanded, the scale and content of the opening to the outside world has expanded gradually as well. Because of their relatively favorable geographic position, China's coastal cities have certain port facilities in being, and they also have a relatively good foundation for economic development and other conditions. Consequently, they have become key points for the implementation of China's policy of opening to the outside world. Given these circumstances, how should we adapt to the series of changes that the opening to the outside world is bound to give rise to? How can we devise a development strategy for the inland urban economy? How should we handle the relationship between the internal urban economy and the coastal urban economy? These are problems urgently in need of solution. How satisfactorily these problems are handled has a direct bearing on whether or not China will be genuinely able to perform well in the opening to the outside world, and it will also ramify into whether or not China will be able to realize the four modernizations by the end of the present century.

I

Institution of a policy of opening toward the outside world, converting China's economy gradually from a closed or semiclosed economy to an open economy, actively participating in international economic activities, and deriving greater economic benefits from a regional division of labor on a world scale is completely necessary. Institution of a policy of opening toward the outside world, the introduction of advanced foreign technology, equipment and managerial experience, and the use of foreign capital to develop and give impetus to China's economy will also inevitably accelerate progress on the four modernizations. Even though coastal cities should be key points in the policy of opening toward the outside world, nevertheless, the policy of opening toward the outside world is not solely a matter for coastal cities. Institution of an opening toward the outside world is a major strategic economic policy for the country as a whole, the implementation of which stirs enthusiasm not only in coastal cities, but

that also has to be coordinated with the arousal of enthusiasm in inland cities. In fact, all of the country's major present economic policies cannot but have a bearing on all economic sectors and regions. Overall, China's economic system is already one of interrelated, mutually restrictive socialized large-scale production in which no economic sector or region can attain smooth development in isolation from corresponding development of other economic sectors and economic regions. Even though there is considerable disparity in the economic development of the country's various regions, a certain interrelationship and a mutually restrictive relationship continues to exist among them. The inability of the economies of coastal cities to develop smoothly in recent years has been attributable, to a large extent, to the inability of inland areas to provide them sufficient raw materials and energy. The inability of inland urban economies to obtain relatively good economic results during the past several years has likewise been related to the inability of coastal cities to supply sufficient capital, and ineffective transfers of technology, equipment and managerial skills from them. Only when the economies of the two are mutually coordinated and mutually advancing can China's economy move ahead smoothly. Implementation of the policy of opening to the outside world requires earnest consideration of this problem.

With the establishment and constant expansion of world markets, oceans have come to play an increasingly large role in the development of a country's economy. More than 70 percent of the entire world's foreign economic links depend on marine transportation. There is not yet a single major country in the world with a fairly high level of economic development that is an inland country. Further development of China's economy will be decided to a very large extent by whether or not China can make effective use of the seas in the establishment of regular economic links. The four special economic zones and the 14 coastal cities in process of being further opened up that China currently has are the country's main doorways for entry into world markets, and they are forward positions for the introduction of foreign technology, equipment and managerial experience. Not only are these coastal cities located on the ocean and do they possess relatively good port conditions, but they also possess the economic and cultural basis for the importation of foreign capital and foreign technology. According to 1981 statistics, 15 major coastal cities in east China having less than 1 percent of the country's total land area and only 4.7 percent of its population had 7.1 percent of its industrial enterprises, the gross industrial output value of which was 29.5 percent of the total for the whole country. Among independently accounting state-owned industrial enterprises, these enterprises provided the state 30.2 percent of the whole country's profits and taxes, and 24.8 percent of the whole country's financial revenues. This demonstrates the high economic effectiveness that the coastal cities possess. In addition, it is in these cities have China's economic and technical forces are largely concentrated. They have most of the country's scientific and technical personnel, its institutions of higher learning, and one-third of its student population. In addition, they have a multitude of scientific research institutions and large numbers of skilled workers. Institution in these places of the policy of opening to the outside world permits fairly rapid digestion and absorption of advanced foreign technology, enabling very high economic results to be obtained within a fairly short period of time. Without doubt, making coastal cities key points for the opening toward the outside world

is correct. The problem is how inland cities can accommodate and coordinate, and how they can also gain fairly great development from the process of opening to the outside world.

II

Is there a contradiction between carrying out a policy of opening toward the outside world and the developing inland economy? The reply is negative. Both the coastal city economy and the inland city economy are distinctive parts of the overall mosaic that is socialist China. Development of the inland city economy not only will pose no contradictions for the short-term emphasis on development of coastal cities, but rather will help development of the coastal urban economy.

1. Development of the inland urban economy can enable the coastal urban economy to gain a solid basis for opening toward the outside world. Introduction of foreign technology and use of foreign capital both require that the country possess a certain economic foundation for their introduction. This has a bearing both on ability to equip domestic industry and corresponding facilities for the supply of energy, for transportation, for service, and for construction, and on supplies of domestic raw materials, processed materials and agricultural and sideline products. Under most circumstances, the foregoing problems cannot be completely solved by coastal cities alone. China's peculiar geographical conditions have concentrated most resources in the western part of the country, while historical development of China's productivity has caused the modern economy or modern industry to be largely concentrated along the southeastern coast. This irrational pattern of resources and industry cannot be completely changed within a short period of time. This means that most of the resources that the coastal urban economy needs will have to come from inland industries. Thus, only with a certain amount of development of the inland economy for the exploitation of abundant resources can development of the coastal urban economy have a solid foundation. Looked at in terms of future development, China is still in the "takeoff" stage of economic development, its needs for all kinds of resources still being at a low level. With economic growth, demand for resources will inevitably increase extremely greatly. If China's economic growth is to have powerful backing, it will be necessary to start now to devote a high degree of serious attention to the issue of resources exploitation; thus it will not be possible to neglect development of the inland urban economy.

2. Looked at from the point of view of opening up markets, development of the inland economy also holds great significance. Currently, more than approximately 60 percent of the products of coastal cities are sold in inland markets. Although it is estimated that they will gradually come to occupy a greater place in world markets, nevertheless, over the short run there will be no change in the situation in which most products will continue to depend on inland cities for sales. ~~But the capacity of inland cities to buy will actually be determined~~ by development of inland cities and of the rural economy. As a result of coastal cities carrying out a policy of opening to the outside world and expanding production capacity, considerable demands will inevitably be made on inland markets. "Production without markets dooms industries" ("Complete Works of Stalin," 1956 edition, Vol 6 p 144).

3. In the process of opening to the outside world, coastal cities will introduce a substantial amount of advanced foreign technology and equipment. This will bring about a tremendous growth in productivity, and the structure of industry in coastal cities will undergo corresponding changes. In overall terms, coastal cities will be more economically and technologically advanced than other places in the country. They will also become major areas in the country and model areas for the adoption of advanced technology. Their future development will be mostly toward high-grade, precision and advanced knowledge-intensive industries, and existing ordinary industries will gradually be replaced by inland industries. This will be a long-term strategic economic shift. It will be decided by the speed of development of coastal cities, and it will also be decided by the speed of development of inland cities. If the economies of inland cities fail to attain full development, the production of products of ordinary industries will have to continue to be done mostly in coastal cities. If large numbers of ordinary traditional industries remain, limitations of space in coastal cities and the load on cities will make it impossible further to develop a multitude of new industries. In addition, if the inland economy does not develop, lacking competitive pressures, coastal cities can always rely on their existing economic and technical dominance to establish a firm foothold, and they themselves will lack the dynamism to make the gradual transition to new industries. In fact, most of the development in coastal cities during the past more than 30 years has been in labor-intensive and capital-intensive industries, principally in the electromechanical, textile, chemical industry, metallurgy, food and petrochemical sectors, which have led the way in forming the urban economic system. Considerable numbers of enterprises consume high amounts of energy and large amounts of raw and processed materials, and their equipment has become old. Take Tianjin, for example. Nine percent of all the equipment in Tianjin's major enterprises has been in service for more than 30 years; 6.3 percent has been in service for 20 to 30 years; and 25.7 percent has been in service for between 10 and 20 years. The situation in Shanghai is no better than in Tianjin. In addition, in large coastal cities (particularly in exceptionally large cities such as Shanghai and Tianjin), the urban load is approaching its ultimate limit in a certain sense. At a certain stage of economic and social development, the amount of population and industry that a city can support is limited. When the load limits are exceeded, all sorts of impediments appear and overall effectiveness declines. Even though these large cities continue their fairly high economic effectiveness, this economic effectiveness frequently is gained at the cost of urban residents putting up with congestion in housing, traffic jams, environmental pollution, inadequate supplies of water and inadequate public utilities. Change in these deteriorating environmental and social benefits entails having the state increase substantially nonproductive investment in these cities to improve their production and living conditions. Even more measures are required for gradual change of these cities' major industrial structures so that they will gradually develop toward knowledge- and technology-intensive new industries. Only when there is development of the inland economy and rational establishment of major traditional industries that rely on nearby resource-producing areas can the coastal cities bring about a fairly smooth shift in their industrial structure.

4. As China gradually shifts toward an open economy, economic links between China and world markets will become increasingly numerous. On the one hand, China will have to import large amounts of foreign equipment as well as some raw materials and products; on the other hand, China's own products will be sent to world markets in large quantities. To break into world markets that are daily becoming increasingly competitive and to gain a favorable balance in foreign trade, sole reliance on the economic strength of coastal cities is clearly not enough. Even though the level of economic development in coastal cities is somewhat higher than in inland cities, it is still a long way from that of many developed nations of the world. Sole reliance on the economy of coastal cities to open up world markets is not enough in terms of varieties, quantity or quality. It is also necessary to work together with inland economic strength to "pool forces" in opening world markets. In fact, the inland urban economy already has a substantial foundation. After more than 3 years of the building of socialism, the percentage of the country's fixed assets in inland industrial enterprises rose from the 27.1 percent of 1952 to 53.6 percent in 1980. In output of major products, steel rose from 14.2 to 34.4 percent; coal rose from 52 to 63.9 percent; electric power rose from 35.7 to 45.3 percent and cotton yarn rose from 175. to 37.2 percent. These large numbers of state-owned enterprises are now able to produce substantial numbers of machines, electrical equipment, chemical industry, textile and nonferrous products as well as energy for export in return for exchange. In addition, inland cities are frequently located at land and water transportation hubs, or at collection and distribution points for industrial manufactures and agricultural and sideline products. Inland city businesses have been responsible historically for organizing the export of various traditional Chinese products such as tea, silk, porcelain, medicinal herbs, spirits, furs, foods and various native handicrafts. These products have frequently been very competitive and have historically been an important and integral part of China's export products. Therefore, it is necessary to stir the enthusiasm of inland cities and to use modern techniques to transform the production of traditional products, to improve the quality of traditional products, to improve storage, packaging and decoration for a great increase in their ability to earn foreign exchange. Development of China's export trade also requires serious attention to the issue of developing the inland urban economy.

5. In terms of the future direction of development, the principle strategic goal in coastal cities' economic development is world markets, and the economy of inland cities will gradually shoulder the important task of supplying domestic markets. The present situation in which most domestic markets are occupied by the coastal cities will have to change. This will be decided both by gradual changes in the coastal cities' economic development strategy and will also be decided by the level of development of the inland urban economy. Unless the inland urban economy develops, competition for domestic markets will not exert pressures on coastal cities, and changes in the strategy of coastal cities' economic development will comparatively lack a motive force. Numerous facts demonstrate that sole reliance on one or two economic policies or administrative measures cannot completely solve problems in the orientation of economic development. Changes in the coastal cities' economic strategies require impetus from inland cities' economies. At the same time, it is only when inland cities' economies achieve substantial development and are gradually ready to satisfy the needs of

domestic markets, for the economies of coastal cities to withdraw gradually from domestic markets and turn largely toward world markets, which is also the only feasible thing to do.

In short, development of the economy of inland cities must inevitably help the opening up of the economies of coastal cities. Coastal cities are China's key points for opening toward the outside world. It is essential that the economies of coastal cities and of inland cities carry out an equitable division of labor. However, this division of labor is only a relative one and not an absolute one. For coastal cities to serve as key points for China's opening toward the outside world by no means excludes inland cities from importing various kinds of foreign technology and equipment and from using foreign capital under a number of circumstances; much less does it exclude inland cities' economies from actively entering international markets and developing foreign trade activities. The distinction between the two is only in a different emphasis in the economy's strategic division of labor. Moreover, it is only when the two are mutually coordinated and mutually advancing that a truly good job can be done in China's opening toward the outside world.

III

How well the inland urban economy is able to develop, use its large resources to supply the needs of domestic production, and use its development of production to satisfy domestic and foreign markets as well as give impetus to the transformation of the structure of industry in coastal areas has a bearing on the major issue of whether the policy of opening toward the outside world can be put into action smoothly. Will the inland urban economy be able to shoulder these several important strategic tasks? Looked at in terms of the trend of future development, it has the conditions for fulfilling this mission.

As a form of urban economy, the inland urban economy likewise possesses the features of a regular urban economy. Simply put, modern cities are space area systems in which individuals are the main bodies and that are characterized by the use of space with intensive populations, intensive economies and intensive science and culture that have as their goal intensive economic benefits. As economic complexes, the most fundamental characteristic of cities is their intensivity. "Cities personify the concentration of population, production tools, capital, and demand" ("Complete Works of Marx and Engels," Vol 3 p 57). Even though the degree of concentration in inland cities is generally somewhat less than in coastal cities, they still have the general features of an urban economy. Furthermore, in China's vast interior, numerous large and medium cities with populations of more than 1 million have come into being. These, plus large numbers of small cities, together form centers that propel the development of China's inland economy. The role of some principal inland cities is particularly obvious. Wuhan and Changsha, for example, spark the economy of south central China; Xian and Lanzhou energize the economy of northwestern China; Congqing, Chengdu, Kunming and Guiyang propel the economy of southwestern China. These cities likewise draw support from the high concentration of a multitude of enterprises and production sectors; they draw support from the concentration and free movement of water and land transportation; and they draw support from the assemblage of talented people and advanced

science and technology as well as the quick access to information, from which they derive fairly highly intensive economic benefits. Inland cities likewise are centers that propel China's economic development.

As part of the inland urban economy, they also have some features that differ from the coastal economy. These are manifested mostly in the following ways:

First, they are geographically located far from the sea; consequently, they cannot conduct foreign trade, introduce technology and equipment or use foreign capital as readily as coastal cities. In order to introduce foreign technology and equipment and engage in import and export operations, inland cities must transport things over fairly long distances and they have to obtain the assistance of coastal cities.

Second, inland cities are generally fairly close to areas that produce raw materials and to vast inland consumer markets. In southwestern and northwestern China alone is concentrated 80 percent of the nation's proven reserves of lithium, nickel and platinum, of mercury, vanadium, titanium and potassium salts, of asbestos, and of 80 percent of exploitable water resources. It also has 40 percent of the country's copper, lead, zinc, phosphorous ore and natural gas. It has 20 percent of the country's iron, manganese, bauxite, antimony, tin, molybdenum and sulfur. Advantages in these resources can provide vast future prospects for the inland economy.

Third, inland cities generally have vast amounts of space for development. In comparison with coastal cities, they have a relatively large amount of unused land for production and construction activities. Since the degree of concentration is not as great as in coastal cities, they generally do not suffer from the serious "urban blight" of coastal cities and their economic effectiveness is not as great as coastal cities. Also, their environmental benefits and social benefits are generally better than in coastal cities.

Fourth, inland cities generally possess very great potential for economic growth. More than 30 years of socialist construction has built up an impressive industrial base in inland areas, and a fairly complete industrial system has begun to take shape. Inasmuch as most of this industry has been built since the founding of the People's Republic and since it was built using fairly advanced technology and equipment, thanks to support from the state, the technology and equipment of large and medium enterprises in inland provinces is generally no lower than that of coastal provinces. However, since the technical level and managerial level in inland cities is not as good as in coastal cities and since integration among enterprises is poor, production decentralized and confused, the economic benefits derived from technology are generally lower than in coastal provinces and cities. In southwestern and northwestern China, for example, per capita output value of industry and agriculture is only 61.2 percent that of the nation as a whole. The tax and profit rates are only 53.88 percent of the average for the whole country. Low economic effectiveness is a universal weakness of the economies of inland cities, but this weakness is by no means insurmountable. First of all, economic effectiveness can be increased tremendously through the emulation of advanced technology and advanced managerial experiences of coastal areas and foreign countries, through advances in

techniques, through readjustment of production processes, and by combining productivity. Never mind catching up with coastal areas or foreign countries, so long as economic and technical indices are raised to the national average, taxes and profits for the country could be doubled within 1 year. If they caught up with coastal areas, they could be quadrupled. However, once the potential in inland industry has been tapped, inasmuch as its base figures are relatively small, it would be easier for coastal cities to multiply their output value because their base figures are also proportionally far greater than those of inland cities.

Therefore, good performance for the inland economy is both completely necessary and completely possible. Today China is pursuing an opening toward the outside world, while its internal economic strategy is to take coastal cities as key links, carrying out a policy of reliance on its east for transfers to its west. All inland cities are bridgeheads for giving impetus to the economic strategy of relying on the east for transfers to the west, and are centers for energizing development of the inland economy. In carrying out the policy of opening toward the outside world, both coastal cities and inland cities have great prospects for development.

IV

In carrying out the policy of opening to the outside world, how to handle properly the relationships between coastal cities and inland cities is also an extremely important question. The relationship between the coastal city economy and the inland city economy is, in the final analysis, a relationship among producers of goods under socialist conditions. As a result of natural conditions and differences in the level of development of productivity, there are differences in the regional division of work for social labor between the two. However, both parties have as their goal the promotion of the building of socialism in China. Certainly it cannot be denied that within this rubric both parties have relatively independent economic benefits. (This is also true among coastal cities and among inland cities.) Handling of the relationship between coastal cities and inland cities must ramify into the question of individual economic benefits. How should we handle the relationship between the two?

1. Coastal cities and inland cities have a common goal, and the two are economically interrelated and mutually restricted. Therefore, coastal cities should help inland cities develop their economies with skills, management, capital and trained people, while inland cities should supply raw materials, energy and agricultural and sideline products for the economic development of coastal cities. Mutual cooperation and mutual promotion benefits both parties and the whole country.

2. In economic links to the outside world, both parties should pool forces for active development of foreign trade. Coastal cities should provide inland cities with help in the form of communications, finance and banking, information, transportation, storage and economic contacts with the outside world, genuinely functioning as domestic and foreign trade centers. Coastal cities are, after all, ports that link all of China to the outside world, and they should discharge this responsibility. Of course, coastal cities should also derive suitable and fair economic benefits from carrying out this task.

3. Coastal cities and inland cities should be encouraged to forge all sorts of economic links with each other. Not only should inland cities open toward the outside world; they should also open toward coastal cities. The state should formulate fair technology transfer regulations to insure that the party transferring the technology derives appropriate compensation. The state should also set fair prices so that suppliers of resources derive corresponding economic benefits. Next, the state should use economic legislation and economic laws to insure that economic agreements are carried out so that specialized cooperation and economic cooperation can develop normally.

In summary, during the period of opening to the outside world, both coastal cities and inland cities must cooperate with each other, advance each other, and compete with each other. Each must bring into play its own advantages for developing the economy so that a new situation overflowing with vigor come about in the building of socialism in China.

9432

CSO: 4006/947

FOREIGN TRADE AND INVESTMENT

PROSPECTS FOR DIRECT INVESTMENT BY JAPANESE ENTERPRISES

Beijing SHIJIE JINGJI [WORLD ECONOMY] in Chinese No 8, 10 Aug 85 pp 25-28

[Article by Jin Fengde [6855 7364 1795]: "No Spectacular Increase in Japanese Investments in China Is Foreseen"]

[Excerpts] Much has recently been said about the state of direct Japanese investments in China. By and large, Japanese enterprises have been slow to invest in China and whatever investments there exist are on a modest scale, with only a small portion of them in manufacturing. There is a measure of consensus between the Chinese and Japanese on this basic fact. No agreement, however, exists concerning the causes of this situation and concerning future trends.

In a move both crucial and useful, the two sides exchanged opinions about the causes of Japanese tardiness in investing in China at the second Chinese-Japanese nongovernmental conference held in Beijing in June 1984. Such an exchange contributed to mutual understanding and helped us further improve our investment climate in order to accelerate our pace of opening up the country. At the same time, however, we must assess Japanese investments more closely so that, armed with a correct understanding of the present situation and future trends, we will be better able to promote Chinese-Japanese economic cooperation.

II. While Japanese Investments in China Will Increase in the Future, They Will Not Constitute a Particularly Large Percentage of Total Foreign Investments in China.

When people in Japan's industrial and academic circles talk about the "second China craze," they are probably not exaggerating. Japanese investments are expected to pick up for the following reasons:

First, Japan has a tremendous investment potential. In recent times, the nation has been posting a trade surplus year after year and it has become a matter of course for its running expenses to chalk up a surplus, which at present (1984) is the largest in the world. This provides the most powerful guarantee for Japan as an international investor. Direct Japanese investments overseas today account for only a tiny share of its gross national product, which in itself is suggestive of the vast potential which can be tapped.

Japan has invested more than \$8 billion in foreign countries each year over the past few years, close to the \$10 billion invested by the United States.

Second, aware that they are falling behind, the Japanese have been keeping a watchful eye on the United States and are anxious to at least narrow the gap between themselves and that country and Western Europe. One source disclosed that as of the end of 1983, direct Japanese investments constituted only 1 percent of all foreign investments in China. Japan is keenly aware that it is a laggard in this respect.

Moreover, the announcement by Japan's Ministry of International Trade and Industry that it will provide insurance for Japanese investments in China, the studies undertaken in recent years by Japanese enterprises on China's investment climate, our efforts to further improve that climate, social opinion, historical ties and geography--all this should mean faster and more sizable Japanese investments in China. Japanese investments in the manufacturing sector, in particular, will take on a new look. We should have a correct assessment of these changes and prepare ourselves accordingly.

On the other hand, Japanese investments in China are not expected to make up an inordinately large portion of total direct foreign investments in China. The reasons are as follows:

First, our open door policy favors the diversification of investment sources. A major characteristic of our times is the shift of the world economy and technology towards the East. Countries in Western Europe and the United States are looking at the so-called "Pacific Basin" with fresh eyes and are eager to expand their power and influence in that part of the world. However, Western European nations are of little importance in Asia's "newly industrialized nations" (and regions), where their investments account for only a tiny percentage of total investments. West German investments in South Korea, Hong Kong and Singapore, for instance, constitute only 2 percent, 2 percent and 3.2 percent respectively of foreign investments in those nations, minuscule compared to U.S. and Japanese investments. Therefore, Western European nations certainly will not ignore the opportunity presented by China's open door policy. Also, a significant number of "newly industrialized nations" (and regions) in Asia and Central America, following in the footsteps of their more advanced counterparts, are going all out to build up their own multinational companies. Since their technology and capital are still inferior compared to those of advanced countries, they tend to see China as a more ideal place in which to invest. It can be foreseen that "newly industrialized countries" (and regions) will come to account for a considerable part of foreign investments in China, something which was rare or even unheard of in other nations in the 1960s and 1970s. There is yet another potential factor which may dilute Japan's position as an investor in China, namely, the possible consequences of a thaw in our relations with the Soviet Union and Eastern Europe.

In short, not only does the diversification of investment sources meet the needs of our open door policy, but objective conditions also exist for such a trend. The excessive reliance by developing nations on the capital of a particular country in the 1960s and 1970s will not occur in China. The upshot

is that there is a limit to the role which Japanese capital will play in our capital mix.

Second, Japanese enterprises are in a transitional stage as far as direct overseas investing is concerned. They were relative latecomers to the international investment scene. This fact, coupled with the lack of domestic resources and the recurrent deficit in its international balance of payments, made for an investment policy which was uniquely Japanese from the outset. With an eye to marketing their products and obtaining information, Japanese investors concentrated on commerce and finance in industrialized nations of Western Europe and the United States. In developing nations, on the other hand, they have tended to focus on extractive industries to ensure an abundant supply of natural resources for the heavy and chemical industries at home. Moreover, they have concentrated whatever limited investments they made in manufacturing in less developed nations in order to make use of cheap labor to fight their way into European and U.S. markets on account of the price advantage. In short, Japanese investments even then were "trade-oriented."

In the wake of the nation's growing economic prowess, rising technical standards, and changing industrial mix, Japan has also strategically modified its overseas investment policy strategically since the mid-1970s, making it more "sophisticated." This sophistication essentially manifests itself in: (1) An increase in investments in Europe and the United States. The geographical distribution of Japanese investments from the end of World War II through 1976 was characterized by a steady rise in the importance of developing nations. In 1976, developed and developing nations accounted for 43.5 percent and 56.5 percent of Japanese investments, respectively. By 1982, their shares had changed to 46.6 percent and 53.4 percent. (2) A sharp rise in investments in manufacturing industries in developed nations.

This phenomenon cannot but make us consider two points. First, Japan, which has invested in manufacturing in only a very limited way, has been vigorously diverting such investments to developed nations in recent years. Hence, even while we take note of Japan's tremendous investment potential in this area, we must assess realistically its investments in manufacturing in China. In particular, we must not have overly high expectations of the technical standards of its investment projects. Second, resource development in less developed nations has been a key feature of Japan's investment policy. Nevertheless, Japan will certainly take into account the dualism of the abundance of our natural resources. Also, as Japan's industrial structure has become more "sophisticated," its resource requirements have dropped significantly. The ratio between GNP and resource consumption increases, which stood at 1:1.1 (that is, for every 1 percent increase in GNP, resource consumption went up 1.1 percent) during the period of rapid economic growth, has recently dipped to 1:0.6. Moreover, the world resource shortage has begun to ease. For all these reasons, we should objectively analyze the attractiveness of our natural resources to Japan's enterprises.

Third, an excessively large trade surplus in Japan's favor may militate against direct Japanese investments in China. Bilateral trade has increased so rapidly since establishment of diplomatic ties between the two countries that Japan is now China's leading trading partner. This fact can be viewed in

two ways. In the past, we tended to stress the positive aspect. In fact, when trade flourishes, direct investments normally suffer. The reason is quite simple: If Japanese products manage to find their way into the Chinese market through trade, why bother to invest in China?

Japanese data show that in 1984 Japan sold us 84,600 vehicles, 186,000 motorcycles, and 8.9 million tons of steel, more than what it sold to the United States, making us their largest steel customer. Japanese exports of electronic appliances were also substantial. Japan's meager direct investments in China may have something to do with the fact that it is our number one trading partner, a view supported by the general principle of the development of multinationals--trade protection.

It can thus be seen that if we do not modify the geographical distribution and commodity mix of our foreign trade as necessary, Japanese industrialists will inevitably weigh the pros and cons of "export" and "direct investment" and continue to take a wait-and-see attitude in the meantime. In this sense, it is imperative that we adopt a flexible protectionist policy towards selected Japanese companies and products. It must be recognized that appropriate trade protectionism is indispensable to the creation of a favorable investment climate.

To sum up, under the present circumstances, while Japan will step up its investments in China, there is a definite limit to how fast and how far it is willing to go for the reasons mentioned above.

12581

CSO: 4006/966

FOREIGN TRADE AND INVESTMENT

WEAKNESSES, PROBLEMS REMAINING IN IMPORT WORK

Fuzhou FUJIAN LUNTAN [FUJIAN FORUM] in Chinese No 6, 5 Jun 85 pp 34-36

[Article by Yan Zheng [0917 2973]: "Import Work, Its Problems and Further Study"]

[Text] China has achieved outstanding successes in implementing the open door policy, following the 3d Plenum of the 11th CPC Central Committee. However, since this was the first "opening of the window," and a rather abrupt need to deal with new things without sufficient experience, it was unavoidable that errors would occur. In order not to have paid for lessons without having gained anything from them, the present article will attempt an investigation into the problems that have beset our import work for the last few years, with the aim of analyzing experiences and restructuring the management of importing work within our foreign economic relations in general.

1. Where To Inquire--The Lack of an Information Network

An effective and reliable information network is the prerequisite for the development of foreign economic work. For the importation of technologies and equipment from abroad, it is necessary to be well informed on a wide range of issues, such as what technologies are now in use in foreign countries, what countries and what factories are manufacturing the equipment in question, what is its price, what is the lifespan of the product in question, how many domestic enterprises are already using or about to import this type of technology or equipment, and so on. This is the foundation that will allow the enterprise concerned or the administrative bureaus in charge to make accurate decisions.

The enterprises and the administrative bureaus in charge currently are experiencing great difficulties in collecting economic information on whatever projects they are concerned with. The information obtained from certain advisory organs, scientific research, or state agencies is frequently informing on only certain peripheral aspects; there is a lack of information both on the international market and on information exchange among provinces, municipalities, prefectures and counties within China. Because the provinces, municipalities, prefectures and counties are authorized to approve imports, be they large or small, decisions are frequently made--not on large-scale, but on medium and small-scale projects--under conditions of spacial isolation, with

predictable consequences. There is always a call for a comprehensive balance in import work, but without an effective transmission of information, how can there be any talk of a comprehensive balance?

Although China has set up quite a number of information and advisory organs in the last few years, some even having overseas offices, they are still in a state of one-track investigations. There are limits to the capability of each organ in collecting economic information, and each organ, furthermore, has its own channels and is active only in its own line of information and advisory activity. The result is that each can handle only certain simple inquiries; there is no place that can provide comparatively complete data.

Establishing an information network is one of the fundamental requirements for economic development. We should now combine our limited potentialities. Each province (at least each coastal province) should set up an economic information center and join in a network with the information centers throughout the country (for instance, with the international information center that has been set up in Beijing), establish cooperation with statistical departments, establish a fledgeling information bank, and horizontally and vertically sort out and store all useful economic information, to be provided to users against remuneration. Contacts could also be taken up with foreign information systems to obtain foreign technical and economic information. Our enterprises and economic administrative bureaus still lack knowledge of economic information work; they are not accustomed to treating information as a kind of commodity that has to be purchased at a price, and they don't know how to search for and get the information they require. Simultaneously with the establishment of the information network, propaganda and educational work has to be launched for the widespread consideration, utilization and probing of economic information so as to raise the economic results from economic information work.

2. Hasty Launching of Projects--Insufficient Preliminary Assessments

The preliminary debate assessing a project is mainly concerned with the selection of the project, the needs of the market, the production conditions and the feasibility study; among these, the feasibility study is the core requirement. If that study is not properly done, if the concepts of the project are not clearly defined in everyone's mind, if deals are hastily concluded, problems are bound to arise later on, there will be endless demands for more funds, repeated delays, declining economic results, inability to repay loans and the whole project will become a cumbersome burden. We have had many instances of such happenings, and the lessons from them are very painful.

Although in actual working conditions the compilation of a feasibility report is a requirement prior to launching any project, it still happens that the preliminary debate in assessment of the project is insufficient, and the following are some of the reasons that this happens:

First, the feasibility study is done with the subjective desire to get the job started; it does not objectively analyze the conditions and results of the project, but is merely a collection of data to pander to the desires of the

leading group, which has certain predetermined intentions, so that the project, by hook or by crook, is assessed as feasible. This kind of an assessment loses all its significance as a study of feasibility.

Second, unwillingness to spend money: The feasibility study requires a certain expenditure of money and manpower. Although the expense is normally less than 1 percent of the costs of the project, leaders who are still addicted to outdated customs will always think it uneconomical to spend money prior to starting work on the project. "Without money for the doctor, there will have to be money for the coffin." Unwillingness to spend a small amount may bring losses too late to be redeemed when the big money has to be spent.

Third, lack of scientific character: It is still only a short time since feasibility studies were launched in China, experiences are insufficient, there is a dearth of information, of data and of scientific method, and it is for this reason that the study itself will lack the needed depth and will not be done with the necessary care.

Fourth, too short a time is allotted to the debate in assessment of the project. The enterprises or departments are too eager to get started, or rush things to be first in line, or set a time limit for work to start, so that the assessment becomes a cursory affair. In foreign countries, the time allotted to the feasibility study is frequently longer than the time of execution of the project. They give more attention to the phase that requires little expenditure and careful deliberation, rather than to the phase of large expenditure, which could then possibly entail procrastination, delays and last minute rearrangements.

Upon review, the majority of errors made in the last few years in our import activities were caused by inadequate feasibility studies. It is therefore necessary now to strengthen the work of feasibility studies and to be strict in examining and approving feasibility reports. In the initial phase, the feasibility report still had to be jointly examined by the administrative bureaus together with specialists from banking, tax, law and environmental protection agencies. The examination and approval procedure has now been simplified, so that the examinations for medium and small-scale projects are carried out completely as administrative formalities, which seems improper. The scientific examination of feasibility reports should be strengthened, not weakened.

3. Who Is To Ensure Soundness--Excessive Administrative Interference

Importation is now basically conducted by administrative methods; the enterprise reports the project and the administrative bureaus give the green light, so that the fate of a project is frequently decided by the impression of the leading group and the personal relations of the enterprise with the administrative bureaus. However, in import work the determination of a project, its feasibility study, examination and approval, negotiations, starting production and assimilation, are activities that have an extremely strong scientific and technical character, and acceptance or rejection must not be determined by the subjective inclination of the leading group. Import

work should be shifted from the present administrative management to scientific management.

In foreign countries, when large corporations have to decide on large-scale economic projects, they normally spend money to have specialized consulting firms make an assessment so as to get an objective opinion. There are now more than 3,700 consulting companies in the United States, whose consulting fees amount to \$2 billion, which goes to show what an important position the consulting trade occupies in the economically developed countries. China has also set up quite a number of consulting organs in recent years, but their social position is still very low, as enterprises and administrative agencies are still in the habit of making their own decisions and not yet accustomed to "paying for the purchase of opinions," or "paying for a person invited to give his opinion." The fact, though, is that in a world of rapidly developing science and technology, unrestrained fluctuations in market quotations and a tremendous amount of economic information, the extent of knowledge and field of vision of a single member among the leading group of an enterprise or administrative agency is limited. The consulting organ collects talent from various quarters and is in a position to supplement whatever shortages there are in technological strength or expertise in the enterprises or administrative agencies, and doing so should also be helpful in overcoming bureaucratism.

Thus it would be a good idea to change the present import procedure, which now proceeds: enterprise proposing project --- enterprise preparing feasibility study --- administrative organ examining and approving, to a new procedure that would rather proceed: enterprise proposing project --- consulting organ preparing feasibility study --- joint examination by specialists organized by the administrative bureaus; or to have the enterprises themselves prepare the feasibility report and have the administrative bureaus submit the report for a recheck to a consulting organ, thus transferring the import project's powers of assessment and have them make the final assessment of project soundness. The administrative departments should devote all their efforts to establishing policy, controlling direction, and enforcing laws and regulations, while the consulting organ is to investigate and study, analyze the conditions and make an objective assessment. This will not only raise the social position of the consulting organs but will also have beneficial effects on the transfer of import work away from administrative management to scientific management.

4. Lack of Guidance--Insufficient Use of Economic Leverage

Because importing projects enjoy preferential conditions and can raise the enterprises' economic results, the enterprises are highly interested in importation, and submit large amounts of proposals to the administrative departments in charge; the administrative departments for their part employ mainly administrative methods and means in deciding which projects to admit and which to reject and in exercising control over the development and direction of import work, while giving little consideration to the exercise of guidance by means of economic leverage.

It is obviously inappropriate to grant the same preferential treatment to the importation of items from different sectors or for different projects. In

some sectors profits are high and loan repayment capacities are strong, but other sectors show a low profit rate and long recovery periods for investments. The slow-selling lines should receive encouragement, the fast-selling lines should be restricted; what to foster, what to eliminate, what to encourage, what to restrict--all these decisions require a guidance-style planning with reliance on economic leverage. The primary economic levers in import work are credit conditions, loan interest rates and the rates of customs tariffs and of industrial and commercial taxes. Different lines of business and different conditions require the granting of loans under different conditions, different interest and different tax rates. The administrative bureaus must as soon as possible decide on their guidance-style planning and on their policies for imports, exercise guidance by means of laws and regulations and supervise the import work; they must not impose restrictions on specific business operations.

5. Only Buying, No Manufacturing--Expenditure Rises and So Does Dependence

As we can see from imports during the last few years, the majority were imports of hardware (single machines, production lines, complete sets of equipment), and only an extremely small proportion were software (patents, blueprints, exclusive techniques). There was, furthermore, a rush to purchase hardware that yields high results, with a rather serious incidence of import duplication. Fuzhou City imported in the last few years more than 100 sets of plastic molding machines of various types and sizes, at a large expenditure of foreign exchange. Only importing without manufacturing will not only deplete funds, but, due to the constant progress of science and technology, will lead to more and more importations and to a growing dependence by China on imports. We should progress from purchasing to manufacturing, and in our imports progress from primarily importing hardware to primarily importing software. When importing a set of equipment, we must not only buy, master and assimilate the operational skill of using the purchased equipment, but must also consider as a further step purchasing the technique of manufacturing that piece of equipment, absorbing the necessary technique and innovatively improving on it. The objective of the purchase is to use it, but even more to obviate further purchases of it. Of course, for an economically backward country it will take a certain historical process to develop from the stage of importing rudimentary hardware to replacing imports and producing the items on its own. Our task is to do our utmost to shorten this process. Our strategy in recent years of utilizing the advanced technology of the developed countries to directly promote our economic development, and through the replacement of imports to spur on our basic industries to follow up these developments, was a wise one, and its initial successes have already become evident. However, on the foundation of certain successes achieved so far, we have to direct our attention to the question of how to spur on our basic industries to further follow-up action.

Why did Fuzhou import a large number of plastic molding machines but was unable to copy them? The crucial point here was that the user factories for these plastic molding machines have had no contacts with manufacturers of plastic molding machines; there were departmental barriers and the different branches of trade were separated as if by mountain ranges. Should we not insist that, when importing technical equipment, the domestic departments or

enterprises manufacturing similar equipment participate in the examination, negotiations and in the assimilation of the project. The fact is that on certain technical matters the manufacturers are more expert than the users. It is the manufacturers that should have more say as to what to buy and what not to buy, and what can be supplemented domestically without expenditure of foreign exchange. Coordination between users and manufacturers, and discussion of the software at the same time that hardware is being discussed, would result in having a number of entities benefit from the import of only one entity. Should we not consider using economic means to encourage machine building enterprises or manufacturers of raw and semifinished materials to copy the imported technical equipment and innovatively improve it. As inventors will be rewarded with an award, the successful copier should also be so rewarded. The Japanese have become famous throughout the world as imitators; we should also learn this skill. Our policy of opening up to the outside world is stimulating our machine building industry and basic industries: now is the time to do all we can and work hard to catch up.

9808

CSO: 4006/933

FOREIGN ECONOMIC CONTRACT LAW ANALYZED

Fuzhou FUJIAN LUNTAN [FUJIAN FORUM] in Chinese No 6, 5 Jun 85 pp 57-59

[Article by Zhang Liansheng [1728 6647 3932]: "Develop the Legal Foundation for Our Foreign Economic Relations"]

[Text] On 21 March this year, the 10th session of the Standing Committee of the Sixth NPC examined and adopted the "Foreign Economic Contract Law of the PRC" [FECL], with its date of enforcement set for 1 July 1985. The promulgation and enforcement of this law will consolidate China's foreign economic relations in a legal form, will enable the accurate disposition of conflicts in our foreign economic relations, will powerfully promote cooperation and interchanges between China and all countries of the world and will promote one step further the utilization of foreign capital and the importation of technology.

I

What is the legislative spirit of China's FECL? This is clearly formulated in the first article of the law: "This law is specially enacted to safeguard the rights and interests of parties to a foreign economic contract and to promote the development of China's foreign economic relations." There is a difference between the parties mentioned in the FECL and the parties of domestic economic contracts. The economic contract law stipulates that the parties to the economic contracts are juristic persons, but the FECL has this peculiarity stated in its Article 2: "This law applies to economic contracts concluded between enterprises or other economic organizations of the PRC and foreign enterprises, economic organizations and individuals." Its parties are at least on one side foreign juristic as well as natural persons, but have to be juristic persons on the Chinese side. The fact that at least one side is a foreign party creates the peculiar situation that there is a difference in the peoples involved, a divisive difference of geography, a difference in writing systems and speech, and a nonconformance of laws. It is therefore necessary to provide an appropriate legal basis for the regulation of relations between the parties; the FECL was formulated precisely to cope with these peculiarities.

The FECL is designed to safeguard the legitimate rights and interests of the parties to a foreign economic contract, i.e., it is to safeguard the foreign party's legitimate rights and interests, but also to protect the economic

interests of the Chinese side; the purpose that is being pursued is to promote the development of China's economic relations with foreign countries. By means of safeguarding the legitimate rights and interests of the foreign party, it will attract foreign capital and facilitate the importation of S&T, thus making some of the world's wealth available to us, at the same time protecting the economic interests of the Chinese side and ensuring equality and mutual benefit, so as to attain the objective of promoting the development of China's economic relations with foreign countries.

Development of economic relations with foreign countries is a major strategy in China's efforts to realize the four modernizations. If we intend to implement an open door policy without safeguarding the legitimate rights and interests of the foreign parties involved, nobody will come to invest in China; we will fail to achieve the objective of the open door policy and our goal of developing China's national economy. However, if we only one-sidedly protect the rights and interests of the foreign party and not strictly, in every legal respect, protect the interests of the Chinese party, it would equally work against our efforts to promote the utilization of foreign capital, or even worse, do harm to the development of China's economic relations with foreign countries. Although these principles sound rather shallow and obvious, leftist or rightist deviations frequently occur in the process of implementing the said principles. Some believe that inasmuch as the foreign party gains certain benefits and takes off with our money, this amounts to a surrender of our rights and national humiliation. We should, therefore, negotiate a contract that will not allow the foreigner to gain any reasonable profits or no profits at all. This would certainly result in frightening away all foreigners, and the gate through which we could obtain foreign investments would be closed tight. Others relax all vigilance and precipitously sign contracts, neglecting the protection of our own interests and allowing the foreign party to get away with all the fat of the deal. This too would be doing harm to the development of China's foreign economic relations. In short, promoting the development of China's economic relations with foreign countries as a means of realizing the four modernizations is on the one hand a basic national policy of China and represents, on the other hand, the legislative spirit of the present law.

II

What is the basic legislative principle of the FECL? Three sentences can briefly sum it up: maintaining the principle of independence and self-determination, implementing a policy of equality and mutual benefit, and following the practices of international custom.

As to maintaining the principle of independence and self-determination, Article 4 of the FECL provides: "The contract concluded between the parties must observe the laws of the PRC and must not be harmful to the public social interests of the PRC." The law also includes provisions reserving the right of the state to approve the conclusion, alteration and cancellation of contracts, thereby upholding the independence and self-determination of the state and the sanctity of the law. The law also contains provisions for the application of international treaties, that is, it expresses full respect for international treaties as also for the principle of independence and self-

determination, excepting those articles which our state has explicitly declared it will retain.

As to the policy of equality and mutual benefit, Article 3 of the present law states clearly and definitely: "Contracts must be concluded based on the principle of equality, mutual benefit and unanimous agreement." The inclusion of the principle of equality and mutual benefit in the text of this law is to ensure that this principle will be observed. We can also see from many other articles of the law that from the provisions on reciprocity between the two parties and from the rights to be enjoyed by each party and the obligations to be borne by each, all these articles express the determination to implement a policy of equality and mutual benefit.

As to following the practices of international custom, and concerning the problem of applicable law, the present law stipulates, in observance of international custom, that the laws of the PRC have to be applied in case of contracts for Chinese-foreign joint ventures, Chinese-foreign cooperative management, Chinese-foreign prospecting for and exploiting of natural resources, but that beyond these cases the parties are free to choose the law to be applied in the disposition of disputes from the contracts. If no selection is made, the law of the country that is more closely linked with the contract shall apply, i.e., the law of the place where the contract was concluded, where the contract is to be fulfilled, where the object of the contract is located, or the law at the location of the arbitrator or law court on which the parties have agreed. Article 5, furthermore, clearly stipulates: "For cases not provided for in the laws of the PRC, international practice or custom shall apply." All these provisions are based on the principles and policies of the PRC, as they equally conform to the practices of international custom.

III

In the wake of the further development of foreign economic activities, China has enacted a number of additional laws and regulations concerning foreign economic relations, and gradually reached a state where "there is law which can be relied on." The promulgation of the present FECL provides the basic guiding principle for the development of China's foreign economic relations, with special attention to one important aspect. After the continued promulgation of these laws and regulations, we are indeed provided with law, but still have to achieve the state where "there is law which must be relied on"; which means we must raise the consciousness of implementing all laws and regulations on foreign economic relations.

Foreign businessmen frequently raise doubts and fears as to possible changes in China's open door policy. The reason for this attitude is mainly that China at one time did not have adequate legislation or a sound legal system. Foreign businessmen believe that law provides special stability and weightiness; they hope for a complete legal system and laws that can be relied upon in their economic intercourse with China. Now that China has provided the laws, they are, on the other hand, concerned whether China, in view of its long history of being without laws and without a sound legal system, can achieve the state where "there is law that must be relied upon." It is

therefore necessary for us not only to emphasize legislation but also to raise consciousness for the implementation of the laws, and to impart to the foreign businessmen the feeling that coming to China to invest will not entail a so-called "political risk." It is in this way alone that we can attract their capital and technologies for our utilization.

Because we have carried out foreign economic work for a short period of time, our experience is insufficient and we are still not knowledgeable in many fields. We hope to have appropriate laws at all levels to rely upon for guidance, ideologically and in our specific tasks, and to attain a state where "there is law that can be relied upon." Moreover, because we have had an inadequate concept of the legal system in the past, we have not been able to protect the interests of the Chinese party on a legal basis and thus have caused political and economic losses. For instance, some comrades adopted an irresponsible and insincere attitude in concluding contracts in disregard of proper procedure and specially designated requirements. They would, for instance, use the hotel's stationery to sign foreign economic contracts valued at several hundred thousand dollars. Others would use the contract drafts of the other party, drawn up in that party's favor, to casually sign without careful examination, causing our side to incur losses. Article 12 of the FECL now lists certain provisions which generally should be included in foreign economic contracts, so that everybody concerned might safely draw up contracts according to these standard norms, to be combined with the specific conditions suitable for each particular item. Article 2, furthermore, provides that this law pertains to enterprises and economic organizations of the PRC, while contracts are frequently signed without distinguishing between government organizations and enterprise management, and contracts are signed by the responsible person of the government organ as party or as witness. For contracts like this, the state is responsible, which is truly a windfall for the foreign businessman, but leaves us in a passive position. Contracts are also sometimes signed by enterprises exceeding their powers or their capabilities. They include in the contracts certain guarantees which only the state can assume, such as undertaking to reduce or exempt from duty or taxes, guaranteeing a certain amount of profits for the foreign partner, etc, conditions that in the end cannot be fulfilled and merely amount to easy promises that cannot be trusted. There is a variety of reasons for these problems, but the main reason is the inadequate concept of the legal system, the attitude of "having law, but not relying on it." We must raise the consciousness of implementing the FECL, overcome all irrational attitudes, open up a new overall situation and hold the initiative firmly in our hands.

IV

Foreign businessmen attach importance to the law and also value the function of lawyers. They usually bring their lawyers along to participate in the negotiations. Some countries even prescribe that a lawyer must participate in all foreign economic activities. This is because each specific question, such as whether the contract clauses are favorable or whether the objectives will be achieved, entails legal questions. After the contract is signed, the parties have to strictly observe and fulfill all clauses of the contract. In case a dispute arises, a claim and its resolution must be pursued according to legal procedure. By that time, each word and each phrase will be weighed in

every clause of the contract, and if neglect or error was committed in the drafting, economic losses are bound to be the consequence. However, in the past we did not attach importance to law in our foreign economic work, or to the function of lawyers or of workers in the judicial field. The promulgation by China of laws and regulations on foreign economic relations is taken extremely seriously by foreign businessmen, and they carefully study the legislation word by word, while in China few will conscientiously read them through, much less study them, and many will remain in a state of "law blindness" or "semiblindness." People who themselves do not understand the law sufficiently or at all should seek help from workers in the judicial field and invite lawyers to participate in negotiations. However, up to now very few do so. Some think of the lawyers only after some problem has arisen from the contract. Some wait until the time for signing has come and then hand over the contract draft, which they are about to sign, to a judicial worker to "ensure soundness," also limiting the checking time to a few hours. Soundness cannot possibly be checked in this way. The perusal of a contract by a lawyer is not like a language teacher's checking his pupil's essay, just a correction of a few words here and there or smoothing out the style. If a lawyer did not participate in the negotiations, he has no knowledge of the origin and development of the case, nor any realization of the various intentions of the parties, nor of the preceding negotiations and bargaining that determined the price. How can he then possibly check and "ensure soundness"? In the past, we have never made full use of the functions of lawyers, undoubtedly because there were too few lawyers, particularly those handling foreign economic cases, but even more because law was held in low esteem and that we had an inadequate concept of the legal system. The operative mentality was that in concluding a contract the only important thing was to get an affirmative nod from one's superior leading comrade, and that it would not matter at all whether a lawyer participated in the proceedings. Some even thought that the presence of a lawyer was a severe hindrance and not helpful to "smooth things out." Actually, there is much talk and little achievement in current foreign economic work. The quality of the contracts is poor, with a low rate of contract fulfillment. From time to time mishaps occur, such as economic disputes or cases of deception and cheating, precisely because the persons engaged in foreign economic work had themselves no legal knowledge and did not avail themselves of legal services.

We must, therefore, exert every effort to study and conscientiously implement the FECL, which has just been promulgated, and must also exploit the specialized functions of lawyers and judicial workers, as well as the functions of legal advisors to enterprises.

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CSO: 4006/933

FOREIGN TRADE AND INVESTMENT

SPECIAL FEATURES OF LIMITATIONS TO CHINA'S PATENT LAW

Beijing GUOJI MAOYI WENTI [INTERNATIONAL TRADE JOURNAL] in Chinese No 3,
May-Jun 85 pp 1-7.

[Article by Zheng Chengsi [6774 2052 1835], Law Institute, the Chinese Academy of Social Sciences: "The Limitations of Patents With Regard to International Trade"]

[Excerpt] II. Some Special Features of the Limitations to Chinese Patents

A. The "State Plan Permit" System

In order to assist in the popularization of advanced technologies in China and at the same time not to hinder the importation of foreign advanced technologies, China's patent law has adopted a unique "state plan permit" system. This system works as follows: Relevant departments in charge under the State Council and the people's governments of provinces, autonomous regions and centrally-administered municipalities are authorized to allow, according to the state plan, designated units to use the patent for an important invention or creation held by units under state ownership that are within their own system or under their jurisdiction; the designated unit that uses the patent shall pay royalties to the unit which holds the patent, in accordance with state stipulations. If a Chinese unit under the collective ownership system or an individual owns a patent which is of major significance to the national or public interests, and which should be popularized, the relevant departments in charge under the State Council may submit a report to the State Council and on approval by the State Council, this type of patent may also be dealt with according to the above-stated provisions.

To implement the "state plan permit" system and other special restrictions of the Chinese system, the Chinese patent law divides patentees into three categories: 1. Patent-holders, i.e. patentees who are Chinese enterprises and units under state ownership; 2. Chinese patent-owners, i.e. patentees who are Chinese enterprises and units under the collective ownership system and Chinese natural persons; 3. Foreign owners of patents, i.e. Chinese-foreign joint venture enterprises, wholly-owned foreign enterprises and foreign natural persons who have obtained Chinese patents.

The "state plan permit" system applies only to patentees under the first two categories. Foreign owners of advanced technologies need not worry about having their patents, brought in as shares in joint ventures, as investments, etc., "popularized" and their exclusive use rights invalidated.

In relation to the State Council and its relevant departments in charge and the relevant departments of provinces, autonomous regions and centrally-administered municipalities, Chinese holders and owners of patents are by law restricted in their exclusive use rights. These particular restrictions are different from most of the restrictions discussed in Chapter 1. Under most of the conditions discussed in Chapter 1, the exclusive use right of the patentee loses all binding effect on everyone, but under the "state plan permit" system, the exclusive use right of the patentee loses validity only with respect to the state organs concerned and the users specially designated by these organs. This means that the holder or owner of a patent that is to be "popularized" still retains his exclusive rights in relation to all enterprises and individuals other than those specially designated by the state for use of the patent. It means that the enterprise or person has the right of granting licenses and collecting use fees, as well as the right to file suits against unlicensed users and to claim compensation.

B. Restrictions in the Assignment of Patents

The right of assignment is not a right peculiar to owners of patents, but one enjoyed (under general conditions) by every owner of a property. In most countries, a patentee is not at all restricted in the assignment of his patent right, just as the owner of goods when selling his goods. However, because the "patent-holders" among the Chinese patentees also have ownership rights in units under the system of state ownership, they are not legally designated "owners" of the patent, but merely "holders." When assigning patent rights, this type of unit must, therefore, obtain approval from its higher competent authority. In international trade, foreign enterprises that claim to have obtained Chinese patents must pay special attention to this matter. They must first of all clarify whether the patent which is being assigned to them is held by a unit under state ownership, and if so, whether the transfer was approved by its superior organ. Otherwise, they would possibly be obtaining a patent through an illegal transfer. At the same time, any assignment of a patent to a foreigner must be approved by the responsible State Council department. This provision applies to the patent rights of all Chinese juristic persons and individuals.

The assignments dealt with here refer to the transfer of patent rights as property and not to the transfer of use rights (i.e., not to the granting of patent licenses). The Chinese patent law imposes no restrictions at all on the right of Chinese holders or owners of patents to issue licenses.

C. No "Import Rights" Being Conferred

China's patent law does not confer "import rights" to the patentee; this is a further provision that limits the patent. The question whether an import right is conferred is usually brought up in the patent legislation of developing countries. The granting of an import right has its positive

aspects with regard to the importation of advanced technologies. Because the owner of the advanced technology will in general apply for a patent in developed countries as well as in developing countries, an enterprise that has obtained a patent license in a developed country has frequently a much larger production capacity at its disposal than an equivalent enterprise in a developing country. If the patentee in the latter kind of country cannot enjoy the controlling right over the importation of the patented product, the assignee in the first type of country, through marketing the products in the latter type, can make it unprofitable to manufacture in the latter type of country. In consideration of this consequence, the owner of the technology will abstain from applying for a patent in the latter type of country, but if import rights would be conferred, it would induce the foreign patentee to obstruct the importation of the same article, manufactured in high quality and at low price, into the developing country and thereby cause economic losses to these countries.

However, we must come to understand: countries which confer import rights to the patentee will also frequently not allow this import right to be exercised at will by the patentee. First, the import right is not being granted for designs; second, as to the import right for invention patents, it is frequently restricted by other even more stringent measures. For instance, Article 1, Paragraph 2 of the Unified Patent Law of the African Intellectual Property Organization mentions the conferring of import rights to the patentees, but also stipulates in its Article 55, Paragraph 1: For the importation of certain patented products for the important need of national defense, public health and national economy, the industrial property department of any member nation of the African Intellectual Property Organization is authorized to issue "requisitioning licenses," to assist importation. The requisitioning by the state is one method that inflicts on the owner of the technology a more serious restriction than not having the import right. China did not institute a state requisitioning system, rights are therefore balanced, and it is only that no import right is conferred, which will not at all hinder Chinese importation of technologies.

In developed countries where the patent law confers import rights to patentees, restrictive provisions are frequently added to prevent the patentee using this monopolistic right from creating a negative influence on the market of one's own country. For instance, Article 48 of the British patent act of 1977 (revised in 1979) stipulates: If a certain patented invention is capable of being used in the United Kingdom but has its use hindered by importation of the said patented product, anyone expecting to use that invention may apply for a compulsory license; in another respect, if the demand on the British market for a certain patented product is being met to a substantial extent by importation, the Patent Office can change this situation by issuing compulsory patent licenses, so that one's own country may be able to manufacture the same type of products.

This shows that not granting import rights to patentees, although a limitation of a special kind in China, is not at all excessive compared with other countries; it is a reasonable limitation.

D. "No Punishment for Ignorance"

Article 62, Paragraph 2, of the Chinese Patent Law stipulates: "The use or sale of a patented product without any knowledge that such product was manufactured and sold without the permission of the patentee" shall not be deemed to infringe a patent. Because use was unknowing use, it can generally be called "use in good faith". Using the product well knowing that the article is patented by someone else can be called "use in bad faith." In the patent laws of most countries such "use in bad faith" is considered an act of patent infringement, but they do not explicitly say whether "use in good faith" constitutes a patent infringement, or make "use in good faith" into a limitation of the patent law. This article of China's patent law, therefore, appears to be unique.

The said provision in the Chinese law can be similarly expressed by a traditional saying in the ancient Chinese legal system, namely "no punishment in case of ignorance." The main reason for this provision is, in my opinion, that under the present conditions in China, when protection of patents is only in its initial stage, and the majority of Chinese, at this stage, have no direct understanding of the actual significance of the monopoly of the patentee, it is hard to prevent patented products from being unknowingly used or sold by careless oversight. It is, therefore, reasonable not to treat such actions as patent infringements at the present time. However, I believe that the specific application of this provision will at least require some supplementation: First, on gaining the knowledge which he lacked before (regardless of whether he was warned by the patentee or informed by others), the offender must immediately halt the activity in question. Second, if the offending party has gained an unjustifiable profit from the patented products during the time he unknowingly used or sold them, he must, on gaining knowledge of the state of things, turn the profits over to the state treasury or use them to compensate the patentee for losses (if there had been losses). Third, the offending party must submit positive evidence of his "ignorance."

At the same time, attention should also be paid to the following: many foreign countries merely recognize responsibility for "acts committed with full knowledge," but do not explicitly negate responsibility for "acts committed in ignorance." If the commercial transactions that possibly relate to patents took place outside of China, the special provisions of Article 62, Paragraph 2, of the Chinese patent law must not, therefore, be indiscriminately applied, but every possible effort should be made beforehand to avoid such unknowing use or sale, as otherwise the offender will possibly be sued (and, furthermore, adjudged) as having committed an infringement of patent rights.

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CSO: 4006/954

SPECIAL ECONOMIC ZONES

FORMS OF ENTERPRISE OWNERSHIP IN SEZS DISCUSSED

Fuzhou FUJIAN LUNTAN [FUJIAN FORUM] in Chinese No 6, 5 Jun 85 pp 31-33

[Article by Chen Haisui [7115 3189 6659]: "The Ownership Structure and Developmental Trend of China's SEZs"]

[Text] In the overall structure of ownership in China's socialist economy, the ownership structure of the special economic zones [SEZs] is peculiar inasmuch as it displays an intersecting and coexisting pattern of state-capitalist economy (including foreign capital investments in joint ventures and wholly-owned foreign enterprises), state-run economy and collective-run economy.

The ownership structures of the SEZs can currently be divided into two types. One is the Shenzhen-Zhuhai-type, where the original industrial base was poor and there had been little state-run or collective-run economy. Their buildup would mainly rely on foreign capital, and foreign investments would occupy a dominant position in the economic structure of these SEZs, similar to export processing zones in other countries. We may call them the Shenzhen-type SEZs. Foreign capital accounted for 71 percent of the total investments in the Shenzhen SEZ in 1982. In its subsequent development, the share of foreign investments will increase further. In the early periods of the SEZ, Chinese investments were mainly used to build up the infrastructure, generally of a service nature. Although Chinese capital was also invested in joint ventures and cooperative management enterprises, these investments played an auxiliary role, with the foreign capital usually taking up the larger share. The ownership structure of this type of SEZs was therefore a structure in which state-capitalism was the backbone (including joint venture, cooperative management and wholly-owned foreign operations), with a variety of economic elements simultaneously coexisting. It must be pointed out, however, that for the effective control of the various economic elements (mainly the state-capitalist economic element) in the SEZ, to safeguard state policies and the implementation of all laws in the SEZ, it is necessary to have its management in the hands of the state-run economy with regard to all important infrastructure and service operations, such as banking, communications, electricity, harbor management, etc. Some of the infrastructure built up with foreign capital participation in the early period after establishment of the SEZ will also have to be recovered when the time stipulated for the joint ventures expires.

Another type of ownership structure in SEZs, different from the above-stated first type, is exemplified by the Xiamen SEZ. When the Xiamen SEZ was extended to comprise the whole island, industrial production had already had a certain foundation, light and textile industries were fairly well represented, the machine building, electronics and chemical industries had attained definite dimensions, and export goods were of the order of about 100 million yuan. There had originally been 770 industrial enterprises, employing 100,000 staff and workers. Since state-run and collective run economy was of considerable strength in the Xiamen SEZ, it was the three elements of state-run economy, collective-run economy and state-capital economy that were established like the three firm legs of a tripod, forming a crisscross pattern within the ownership structure. As to the form of importing foreign capital and its uses, a large part of it will be used in cooperation with state-run economy to engage in technological restructuring. Displaying all these peculiarities, we may call it the Xiamen-type SEZ. Thanks to its advantageous geographical location and natural environment, the Xiamen SEZ could develop into a kind of comprehensive economic zone, to become an international financial center, international trade center, international center for the exchange of S&T and international tourism center. Viewed from the standpoint of our needs in the development of our socialist construction, and following the development of our economic and technological exchanges and cooperation with foreign countries, SEZs of the Xiamen-type will steadily increase in future. In actual fact, the central authorities have already approved the establishment of an SEZ on Hainan Island, which is also a Xiamen-type SEZ. In future, according to needs and capabilities, China will select certain coastal cities to open up further SEZs of this type. It is a type that differs from free trade zones and also from export processing zones, but is a special type of SEZ that combines processing, manufacturing, trading, finance and tourism. Of course, these SEZs will still draw upon foreign capital for their development, and it will be crucial for success or failure of the SEZs whether they can attract foreign investments by granting preferential treatment and adopting appropriate policies. The economic structure of these SEZs need not particularly emphasize one particular economic element and have it occupy dominant position, but could have the three economic elements--state-run, collective-run and state-capitalist economy--mutually competing, mutually promoting, mutually permeating and coexisting for long periods of time in order to gain prosperity and ensure the development of the SEZ economy.

The ownership structures of both types of SEZs contain forms of wholly-owned foreign business operations. What position are these forms of ownership structures to occupy within the ownership structure of the SEZ? I believe that within a certain period of time, especially during the initial period of the SEZ, we must allow the wholly-owned foreign enterprises to develop to a certain extent. This will be helpful in opening up new prospects in the development of the SEZ and beneficial for the accumulation of capital and for the acquisition of foreign exchange. For the operation of a wholly-owned foreign enterprise, a foreign entrepreneur will have mainly three kinds of apprehensions: the fear of leakage of technological secrets, the fear of having to share profits with the Chinese side, and the fear of restrictions on cooperative operations that the Chinese side may impose. From a long-term point of view, we should emphatically encourage cooperative enterprises, beneficial for our mastery and importation of advanced technologies and

learning advanced managerial methods, so that this should be the major form in which the SEZs absorb foreign capital. Of course, we do not reject the development of some wholly-owned foreign enterprises, especially those working with advanced technologies, but we should restrict them somewhat in scope.

This variety of ownership structures in China's SEZs will remain stable and unchanged for a considerable length of time. As to the Shenzhen-type of SEZ, its economic structure with state capitalism as main component will also remain stable and unchanged for a considerable length of time. In the Xiamen-type of SEZ, the state-run and collective-run economies will continuously develop and grow strong in mutual competition, while the state-capitalist economy will remain an important economic element together with state-run economy and collective-run economy, the three standing firm as a tripod. No doubt, the operations of all joint venture enterprises are limited in time, and when their time expires these enterprises will revert to Chinese ownership and become part of the state-run, state-owned economy. Many of the cooperative enterprises presently active in the SEZs are engaged in service trades, such as hotels and tourist enterprises. When the times for these cooperative enterprises expire, their business operations will also be continued by us. However, as far as industrial enterprises are concerned, the fact is that technologies are changing rapidly and the currency of products is limited to certain cycles, which means, generally speaking, that the extremely rapid development in S&T accelerates the need to renovate products, so that new products can no more be considered as advanced types after 10 or 20 years. Many foreign investors select an appropriate time limit for their joint ventures precisely out of these considerations. However, the continuity and successive nature of technological progress enables the upgrading and updating of most products to be frequently accomplished within the same enterprise. Again, owing to the speed of technological changes and the continuous outpouring of new technologies, new techniques and new materials, we must not, in the case of industrial enterprises, especially those working with advanced technologies, mechanically fix time limits for their joint business operations, in the interest of timely and effective importation of advanced technologies. The time span for their joint business operations should be somewhat longer, and they may also be permitted to extend their contracts. On the other hand, following the development of the SEZs, more and more wholly-owned foreign enterprises will enter the SEZs, and they will not only offset a part of the jointly operated enterprises whose time has expired, but, viewing the situation as a whole, even the number of joint venture enterprises will also increase steadily. There are people who conclude that following the development of the SEZs, the state-capitalist element in the SEZs will tend to decrease steadily, to be finally all replaced by state-run economy, or that it will become a unitary socialist economic zone; but this does not accord with the developmental trend in the special zones.

The fact that the variety of ownership structures will show a long-term ~~stability in the SEZs is inseparably linked with the overall development trend~~ of the SEZs. An exploration of the development trend of the ownership structure in the SEZs thus makes it absolutely necessary to study the overall development trend of the SEZs.

We must realize that as a pattern for international economic and technological interchange and cooperation, the SEZ will enjoy a long life throughout various stages of economic development. This is objectively demanded by the internationalization of production under current conditions. Marx and Engels pointed out over 100 years ago: "Closing one's country to international commercial intercourse and maintaining absolute self-containment, as it was practiced in certain areas or by certain peoples of the past, have by now vanished. In its stead there is now mutual intercourse and a manifold mutual dependence among all peoples and all places" ("Selected Works of Marx and Engels," Vol 1 p 254). In economically backward countries, using the form of SEZs to import capital and advanced technologies is of great significance in their economic development, but even in economically developed countries the SEZs are after all acceptable and important as places for international economic and technological exchange and as effective media of cooperation. The United States is one of the most developed capitalist countries of the world, and at the same time the country that has established the largest number of special economic zones; it has presently 66 free trade zones. In an economically less-developed socialist country like China, the SEZs play an irreplaceable role in socialist construction. Of course, China's SEZs differ from such special economic zones as the free trade zones or export processing zones of the capitalist countries and the developing countries. The special economic zones in foreign countries try to achieve a variety of purposes, such as attracting foreign investments, importing technologies, expanding employment, increasing foreign exchange revenue, invigorating the local economy, and so on. China's SEZs, however, have the primary economic function of importing advanced technologies and modernizing managerial methods. They are to be China's windows to admit advanced technologies, managerial methods, and new knowledge, and windows for our policies toward all foreign countries. Even if an SEZ can provide employment opportunities for several thousand or several hundred men, this is so small an amount as to be negligible in view of the nation's overall employment needs. The advanced technologies and managerial skills imported through the SEZs, on the other hand, can have a major impact on the economic development of the whole country. As regards the developmental direction of the SEZs, the major future economic role of the SEZs will be to import high-level most sophisticated technologies and become a forceful base and advance outpost for the transfer of advanced technologies and modern managerial methods to all parts of China. In the present state of economic and technological backwardness, China needs this kind of a window, and even if China's economic and technological standards should improve significantly, this kind of window will still be required, because the world's scientific and technological development is continuously accelerating, and there always exists a great disparity between scientific and technological developments in different countries and between the various sectors.

China will indeed require this kind of a window, not only for the present, but also in the future, a window through which to bring in the advanced technologies and managerial experiences of all countries. Of course, technology can be imported in a variety of forms and ways, and it need not be only in this one form, through the SEZs. For instance, China recently opened up 14 commercial cities, which is also one form of opening up and importing technologies. However, there is a great difference between opening up these cities and the SEZs as regards the extent of opening up, policies and

measures, roles and functions. The importation of foreign capital is intended for opened-up cities, especially such large cities as Shanghai and Tianjin, a kind of supplement to the entire city's economic development. The policies and measures applied in the case of the SEZs are not necessarily applicable to opened-up cities. As regards the absorption of foreign capital and importation of technologies, the favorable conditions in the SEZs far exceed those in the opened-up cities. An SEZ is a completely opened-up economic zone, entry and exit of foreign capital is comparatively free; even in the economic structure of the SEZ, foreign capital can occupy an important position, but this cannot be done in the same way in the opened-up cities. Most opened-up cities must limit the amounts of foreign capital they can absorb; the limit is determined by the position of the opened-up cities within the entire national economy. As to the economic development zones in the opened-up cities, if they are specifically delimited, if they set up independent leadership administrative organs and adopt the same favorable policies as the SEZs, they will become SEZs for all practical purposes, even though they may differ in some respects from the SEZs.

Summarizing the above, the ownership structure of China's SEZs presents a very unique pattern; the state-capitalist economic element occupies an important position in the SEZ, even a dominating position, and this ownership structure, moreover, will continue to exist in China throughout a considerably long developmental phase. It has to be pointed out that this unique ownership structure of the SEZ is not in the least causing a change in China's socialist system. Within the framework of the entire country, the state-run economy with socialist state ownership will occupy the leading position, while the state-capitalist economic element in the SEZs will only constitute a very small portion, as a kind of supplement to the overall socialist economy. As for the SEZ itself, this kind of special zone in China is an economic, not political, special zone. In the SEZs, it is still China that exercises sovereignty, and Chinese laws and decrees are still guiding norms for all enterprise activities in the SEZs. The superstructure of the SEZs is socialist and in the SEZs too there still exists a certain proportion of socialist public ownership economy (including certain important items of the infrastructure and service installations). This socialist public ownership economy is backed by the powerful socialist economy of the entire country; the social system of the SEZs is, therefore, still a socialist one.

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CSO: 4006/934

LABOR AND WAGES

XINHUA DETAILS PRC EMPLOYMENT STATISTICS

OW220226 Beijing XINHUA in English 0216 GMT 22 Sep 85

[Text] Beijing, September 21 (XINHUA)--The total number of people given jobs in cities and towns is expected to reach 35.8 million during the 6th 5-Year Plan period (1981-1985), averaging 7.16 million a year, according to the State Statistical Bureau.

This will bring the total number of employment to 127.3 million by the end of this year, 22.05 million more than at the end of 1980 or an increase of 21 percent.

The number of people waiting for jobs in Chinese cities and towns is expected to drop to about two million by the end of 1985, compared with 5.42 million in 1980, statistics show.

Of the 35.8 million employed in the five years, about 60 percent of the total went to state-owned enterprises, 29 percent to collectively-owned enterprises and 11 percent to private businesses.

Figures provided by the bureau showed 52.57 million people will be employed in service trades in Chinese cities and towns by the end of 1985, constituting a 29 percent increase over 1980.

The number of people working under contract is expected to reach 3.6 million as against 160,000 in 1982 when the contract system was introduced. Of the contract workers, about three million are working in state-owned enterprises and the rest in collective enterprises.

The bureau also reported that China had 14.58 million retired workers and staff members by the end of 1984. But over one million of them are still working with extra income while receiving pensions. The state paid more than 10.5 billion yuan in pensions, about 9.3 percent of the country's total payroll.

CSO: 4020/10

LABOR AND WAGES

BRIEFS

FUJIAN SENDS TECHNICIANS, LABORERS ABROAD--Fuzhou, September (XINHUA)--Fujian Province has sent over 2,000 technicians and laborers to work abroad since 1980 in accordance with 205 contracts signed with foreign countries, worth 59.8 million U.S. dollars. Local officials noted today the technicians and workers were mostly in the navigation, clothing, electronics, construction, cooking, and toy-making industries. To meet the demand by foreign shipping lines for sailors, the province has held training courses for high school graduates and sent abroad over 500 professionally qualified seamen in the past five years. The officials added that some of the workers were introduced to employment in foreign countries by overseas Chinese who are native to the province. [Text] [Beijing XINHUA in English 1613 GMT 17 Sep 85]

CSO: 4020/10

PUBLICATIONS

BRIEFS

YEARBOOK PUBLICATION--Shanghai, 28 Sep (XINHUA)--The needs of China's technological and modernization programs have caused a boom in the publication of yearbooks, authorities of the Yearbooks Research Center based here said today. Some 83 different books will be published this year, they reported, compared to only 7 in 1980, and the boom is expected to continue. Among them are "China Encyclopedic Yearbook," "China Yearbook," "World Knowledge Yearbook," and yearbooks on international affairs, statistics, philosophy, economy, press, art and literature, sports, meteorology, and public health and medicine. Some provinces and cities, including Anhui, Liaoning, Guangzhou, and Wuhan have published their own yearbooks. [Text] [Beijing XINHUA in English 0639 GMT 28 Sep 85 OW]

CSO: 4020/12

TAIWAN

BRIEFS

LOWER ECONOMIC GROWTH PREDICTED--Kaohsiung, 21 Sep (CNA)--Economic growth for the Republic of China in 1985 will decline by half from last year, but this performance will still be better than most countries in the world, Vice Chairman Wang Chou-ming said Saturday. Speaking to students of National Sun Yat-sen University at the Chiang Kai-shek Cultural Center in Kaohsiung City, Wang said that the nation's economic growth in the first quarter was 6 percent, but in the second quarter, it was down to 4.34 percent. He predicted economic growth in the third quarter at 4.1 percent. Although this nation's economic growth in 1985 will be lower than that of last year, this performance will still be better than most countries in the world, such as the United States, which is expected to register a growth of only three percent, Japan, four percent, and Singapore, whose economy will likely show a negative growth this year, Wang said. However Wang said that he is deeply worried about the nation's imports, which showed a decline of 20 percent in the first 8 months of 1985. He attributed the large decline to the price cuts on agricultural products and decreasing imports of crude oil. The government has been very concerned about the present economic stagnancy, and has taken various short-term measures to cope with the situation. But most important of all, he said, is that this nation must make more efforts to upgrade its industrial structure and increase the competitiveness of its products. Only by doing so will the nation's economy continue to prosper, he said.
/Text/ /Taipei CNA in English 1405 GMT 22 Sep 85/

CSO: 4020/20

HONG KONG MEDIA ON CHINA

LEE KUAN YEW SIGNS DEAL TO REFINES PRC CRUDE

HK020909 Hong Kong SOUTH CHINA MORNING POST (BUSINESS NEWS supplement) in
English 2 Oct 85 p 5

[Article by Singapore correspondent Christopher Chen]

[Text] Prime Minister Lee Kuan Yew's recent visit to China has opened up more opportunities for Sino-Singapore trade.

In negotiations with his Chinese counterpart, Mr Zhao Ziyang, Mr Lee secured a number of deals, including a Chinese pledge to give priority to the Singapore's petrochemical products.

The first tangible result of these negotiations was the inception of Sinochem Singapore last month.

"We had planned to start our representative office here (in Singapore) quite a while ago, (but) it was only when the initial difficulties were recently resolved that we started operations," said Zhao Yin Sheng, Sinochem Singapore's representative.

The presence of the Singapore arm of the China National Chemical Import and Export Corp is seen as a bridge between the two countries, but more importantly, as a base for the Chinese oil industry to reach its ASEAN and South Asian clients.

Mr Zhao confirmed that China, through Sinochem, would send 22 million barrels of Chinese crude to be refined in Singapore annually--an agreement Mr Lee had reached with the Chinese.

"Before our starting here, we had signed agreements with Shell and Esso in January and June last year to take a maximum of 110,000 barrels to be refined here daily," he said.

"Beginning this year, we signed agreements with Mobile, British Petroleum [BP] and the Petroleum Corp of Singapore [PCS].

"This guarantees a minimum of 22 million barrels, which will be reviewed according to prevailing market forces, and marks our increasing trade with Singapore," Mr Zhao added.

Perhaps even more significant is Sinochem's intention to use its Singapore base to reach its ASEAN and South Asian markets.

Mr Zhao explained that "although there is no change in China's oil production policy, we intend to capitalise on the republic's strategic location which saves us time and money, thus making Chinese crude more competitive for such users as Sri Lanka, Japan and Hong Kong."

Sinochem, whose refiners (in order of importance) in the republic are Shell, Mobil, BP and PCS, may indulge in other trading activities.

CSO: 4020/13

HONG KONG MEDIA ON CHINA

PRC TO CONTINUE FOREIGN EXCHANGE, IMPORT RESTRICTIONS

HK010523 Hong Kong SOUTH CHINA MORNING POST (BUSINESS NEWS SUPPLEMENT) in English 1 Oct 85 p 1

[Article by financial editor John Mulcahy]

[Text] China's economic adjustment process, including controls on foreign exchange use and import restrictions, is expected to last well into next year when the country's next five-year plan goes into effect.

Hang Seng Bank, in its latest Economic Monthly, says the stringent foreign exchange measures applied by China should, however, be seen as an effort to put the country's economy back on an even keel rather than as a fundamental shift in policy.

Although details of the next five-year plan have not been revealed, Hang Seng believes the essence will be more of the same, with the major objectives being to form the economic structure, to build key construction projects, upgrade technology, develop intellectual resources and to lift living standards.

Describing this year as one of adjustments, the bank says it is a stage of "transformation from experiments to more long-term policies."

While conceding that developments in China's economy recently will have a far greater effect on Hong Kong than anywhere else outside the country, Hang Seng Bank, in Economic Monthly, stresses there is little ground for long-term pessimism.

For the short term, the restraints on the use of foreign exchange reserves are already showing up in bilateral trade between China and Hong Kong, with growth in exports and re-exports slowing dramatically since the start of the year. "In the first five months of this year domestic exports and re-exports to China expanded 84 percent and 151 percent respectively, but the growth rates fell to 39 percent and 75 percent in July."

China's rapid economic growth in recent years inevitably incurred social costs and attention is now being turned to negative effects, such as income disparities, social dislocations and economic crimes.

Commenting on the rundown in China's foreign exchange reserves--which grew six-fold to U.S. \$16.7 billion by the third quarter of last year from \$2.3 billion in 1980--Hang Seng's economists note the sudden and alarming fall from the last quarter of last year, when they dropped to U.S. \$14.4 billion.

"In the first quarter of this year reserves fell a further \$3 billion and are widely believed to have dropped to an even lower level over the past few months."

The bank believes the decline in reserves is not the root of problems facing the Chinese economy, but the result of a deliberate decision to try to soak up excess purchasing power among the vast body of consumers.

"For some time, the rapid rise in the foreign exchange reserves had been a cause of anxiety among the Chinese leadership. One school of thought felt they should be deployed more actively to meet the needs of the domestic economy and should be maintained at a level more closely related to import requirements."

It was argued that a rapid accumulation of foreign exchange reserves at a time when China was obtaining loans at favourable terms from the World Bank and other institutions could have undesirable effects.

Efforts to accelerate growth in the urban economy in October led to exponential growth in imports to contain inflationary consumption pressures.

By the fourth quarter of last year the trade deficit was U.S. \$1.7 billion against a surplus of \$600 million for the first three quarters. The trend continued into this year with a trade deficit of U.S. \$7.9 billion recorded for the first seven months.

While China's external trade has grown enormously since 1978, to U.S. \$50.8 billion last year from \$21.1 billion six years earlier, it moved into deficit last year (of U.S. \$1.2 billion) and the annualised deficit for this year as a whole was \$13.5 billion by the end of July.

The slump in foreign reserves combined with galloping trade deficits, has naturally become a source of concern, leading to the emergency constraints on imports, according to Hang Seng. But the efforts to consolidate and adjust the economy should soon begin to show results, leaving the country free to restart its aggressive modernisation plans.

"In this direction, China will continue to import a variety of goods and services, both to enhance its technology and production base and to improve living standards."

The bank believes Hong Kong will play a crucial role in meeting these objectives as the territory's free-market structure guarantees China the most competitive prices.

The mainland's draft five year plan, for 1986 to 1990, calls for a less robust economic growth target than that set for the 1981 to 1985 plan. Budgeted growth will be seven percent a year against a 10 percent target for the five-year plan now drawing to its close.

"China has already taken steps to hold down its economic growth which has seemingly overshoot its targets as laid down in the current five-year plan." The bank says, nothing industrial output and capital construction both grew well above targets in the first half of this year, causing bottlenecks and inflationary pressure.

"For the outside world, the change in mood could be seen in restraints on the growth of the external sector."

CSO: 4020/13

HONG KONG MEDIA ON CHINA

HONG KONG: CIVILIAN PRODUCTION BY PRC DEFENSE INDUSTRY

HK090911 Kong Kong CHENG MING in Chinese No 95, 1 Sep 85 pp 28-29

[Article by special correspondent Hsiao Chung [2556 0394]: "Change of Direction" in CPC Defense Industry"]

[Text] Military Installations Serve the Masses of People

The "Hongqi" limousine, which is the product of the No 1 automobile manufacturing plant has always been regarded as a top-quality and secret product for military use. It has a nobler background than the Rolls-Royce limousine in terms of production, for over the years, the plant has never turned out more than 1,000 "Hongqis." But now the "Hongqi" limousine is being put on display for sale at the Guangzhou Commodities Fair. It can thus be seen that the military industrial enterprises of the CPC have opened their doors to the outside world.

In fact, a few months earlier, people in Hong Kong started enjoying the use of the CPC's military installations. Since the setting up of the Shenzhen special zone, people have all along felt deeply the inconvenience of the absence of an airport in Shenzhen and, moreover, the construction of an airport has not yet been confirmed. Beginning in April this year, people from Hong Kong have been allowed to buy tickets for a direct flight to Beijing, but were asked to take off from Huiyang's Pingtan Airport, a military airport 80-odd km away from Shenzhen. To support the economic construction of the special economic zones, after approval by the central authorities, it has been opened to the outside world.

The Air Force of the CPC has opened some 60 of its airports for civilian use up to now. Since the beginning of this year, an additional 40 oil depots and filling stations of the Air Force in big cities have offered oil storage and refuelling services to society. The Navy has also opened 5 of its ports and 12 of its docks to society. As for the land forces, the Shenyang Military Region in the northeast has handed over 145 military railways to both military and civilian use. The Guangzhou Military Region has also opened 68 military railways in Guangdong and Hunan Provinces and Guangxi Autonomous Region for business.

In recent years, with the influence of the drive to liberate the mind, the NPC--this "rubber stamp"--is getting more and more uncompromising in its stand. Military spending is being cut year after year. This reduction in military spending has resulted directly in the recent troop reduction of 1 million men (chiefly officers in excess of the complement and logistic personnel in areas such as military industrial enterprises).

According to the "China Statistics Yearbook," the CPC's military spending over the last 7 years is as listed in the following chart:

Military Spending Since 1979

Fiscal year	Military Spending (unit: 100 million yuan)	Percentage of State Expenditure
1979	222.7	17.5
1980	193.8	16.0
1981	168.0	15.3
1982	176.4	15.1
1983	177.1	13.7
1984	180.7	11.9
1985	186.7 (budgeted)	11.9

Source of the data: the "China Statistics Yearbook"

From the chart we can see that the percentage of military spending in the general state expenditure has been decreasing progressively year after year.

The CPC's military spending cuts are made after repeatedly weighing the pros and cons. It is said that a related expert calculated: an annual increase of 5 billion yuan in military spending will not necessarily significantly improve the Army's equipment, but if that sum of money is used in economic construction, a power station with a capacity of 5 to 6 million kilowatt-hours, or a 1,500-km railroad can be built. In the face of this comparison of figures, some "veteran comrades" who clamored for an increase in military spending could do nothing.

Recently JIEFANGUN BAO published a commentary. It says: "You must be able to restrain yourselves in some matters in order to accomplish others. The fundamental solution to modernizing national defense is to initiate an economic take-off."

Examination of Ideas on the Building Up of National Defense

At the beginning of this year, the departments concerned held a symposium on national defense economics. Symposium participants maintained that since the CPC had been in office, great mistakes had been committed in building up national defense due to a lack of theoretical guidance. Some people pointed out that during the period ranging from the mid-1960s to the early 1970s, the CPC handled the relationships between the national defense economy and the national economy from a defense economic viewpoint. This was characterized by

the neglect of economic results. Lin Biao's theory of "dispersing industries to mountains and caves" pushed this blindness in construction to extremes, thus causing enormous waste in human and material resources. Due to the longstanding irrationalities in the national defense economic system, the science, technology, and industry for national defense, never regarded as an economic entity, have all along been in a state of seclusion and military technology has never been transferred to civilian needs in good time.

Some people cited examples to illustrate the case. In 1954, China succeeded in trial-manufacturing its first plane, but it has never manufactured any large-sized civilian passenger plane to date. Being the fifth country in the world to succeed in testing atom bombs, China has never built any nuclear power station to this day, while there are already some 300 nuclear power stations throughout the world (3 in Taiwan). Hence, leaders of the national defense departments were criticized for one-sidedly stressing the needs of national defense to the neglect of economic results, instead of acting in accordance with economic laws. They even argued that everything should be done "at all costs" so long as it is needed militarily, whether in peacetime or in war.

The Formation of a Market for Products of Military-turned-civilian Industries

As a result of the reduction in military spending and in the number of scientific research and production projects in military industry, the military industrial departments and enterprises have continuously been operating "at less than full capacity," and their scientific research personnel and the family members of their staff and workers are, in particular, hit hard by price hikes in society.

Deng Xiaoping has said: "Being well-equipped, the national defense industry has a solid technological foundation. It is necessary to make full use of this force in the construction of the whole country. This will be absolutely helpful, and not harmful to us."

With the equipment of the national defense industry, we can turn out commodities for civilian use and, with its technical forces, we can open up the technology market and use it in local economic construction. These are the two steps the CPC took after shelving the modernization of national defense in utilizing military industry, and also the two links for the military industrial enterprises to save themselves in the new situation. Hence, a market for products of military-turned-civilian industries has begun to take shape.

Turning military industries over to civilian production started in 1980, and in the second half of 1984 it was carried out on a large-scale. It is learned that the output value of civilian-use products turned out by the military industrial enterprises amounted to 4.1 billion yuan in 1984, an increase of 45 percent over 1983 or a rise of 240 percent over 1980. The Ministry of Ordnance Industry set up the General Civilian-use Commodities Marketing Company and its branches in nine provinces and cities one after another in April of last year. The sales volume of such commodities last year

reached 130 million yuan, with a profit of 4.5 million yuan. The Ministry of Astronautics Industry has also tapped its potential as far as possible. Catering to the needs of civilian production, the Harbin Xingguang Machinery Plant, run by the ministry, has 28 automobile production lines, with a capacity of 1 automobile every 9 minutes, second only to the "first" and "second automobile manufacturing plants" in terms of production capacity.

The second step in turning military industries over to civilian production is technology transfer and the opening up of the technology market. As the utilization rate of intelligence and information in China is extremely low, the CPC can use just 30 percent of its domestic technological achievements. Last year, the State Council's leading group for science and technology work, the State Science and Technology Commission, the State Economic Commission, and the Commission of Science, Technology, and Industry for National Defense, spent 6 months conducting a survey and found that on the one hand, the military industrial departments had "no rice for preparing a meal" and, on the other, local construction was badly in need of technology. Therefore, they decided to build a bridge between the two parties and to develop the technology market. The technological information bureau under the commission of Science, Technology, and Industry for National Defense specially started publication of "JUNGONG JISHU ZHUAN MINYONG XINXI BAO" (information news concerning the transformation of military industrial technology into civilian use).

The transactions concerning technology transferred by the military industrial department and its affiliated organizations to civilian production amounted only to 430 million yuan, or a little more than one-third of the 10 days of transactions at the Hangzhou Commodities Fair held in March this year. One of the main reasons for this state of affairs is the question of "disclosure of secrets".

The military industrial departments and enterprises have been invariably in the secluded state of a high degree of secrecy. In fact, many scientific research and technological projects of the CPC's national defense industry are of a world-advanced standard. However, the practice of freezing whatever scientific and technological achievements are made and of neither announcing them to the outside world nor transferring them to the needs of other trades has resulted in their extremely low rate of utilization and held up the release of technological energy.

The sudden opening up to the outside world not only made it difficult for the military industrial departments to adapt themselves to the changed conditions; the press also was at a loss as to what to do. The news about the Hangzhou Commodities Fair held in the middle 10 days of March appeared in the newspapers only in the last 10 days of May (the weekly magazine LIAOWANG did not publish its "postscript" on the fair until May). The Jilin Commodities Fair held in April was reported in the newspapers a month later. With a freeze in the policy of secrecy, the two commodities fairs held in May appeared in the newspapers some days after they were opened.

In the past, if military industrial technology was made public, this would mean "betraying confidential matters". Although the CPC has now drawn an equal sign between the publication of military industrial technology and its "transfer", there are still some obstructions in this respect, since people find it hard to apply the standards. According to a leading cadre, measures are now being formulated to disclose confidential matters concerning military industrial technology, to liberate some technology which is frozen or kept secret from the public, and to promote some new projects, in accordance with the principle of popularizing, developing, disclosing, and studying a number of items of military industrial technology so that the achievements in military industrial technology can be turned into commodities as quickly as possible.

The Initial Successes Achieved in Transferring Military Industry to Civilian Needs

The combination of defense technology and the state's economic construction has created enormous capacity for maneuver. It has not only invigorated military industry itself but has also brought quite a few local enterprises back to normal operation and saved a huge amount of foreign exchange for the state.

For example, the annual expenses of the Nanjing Aviation College on scientific research are about 2 to 3 million yuan. At the beginning of this year, it concluded transactions in the form of technological contracts totaling 11 million yuan. Calculated on the basis of a 20-percent profit, the college has managed to be self-sufficient in funds with the money earned.

The Ministry of Aeronautics Industry provided the Daqing oilfield with low-pressure turbine expansion refrigerating devices to recover hydrocarbons from and to dehydrate oilfield gas, thus drastically reducing waste in oilfield gas due to "spontaneous combustion". With the devices provided by the Ministry to the Zhongyuan, Dagang, Shengli, and other oilfields going into operation, they will be able to handle 1.4 billion cubic meters of oilfield gas a year and to create over 100 million yuan in output value.

In the past, the Anshan iron and steel plant used the method of guessing the amount of molten steel in a steel ladle by experience, which wasted tens of thousands of yuan a year, because inaccurate estimation could either cause steel cinders to flow into the steel ladle or cause waste in the molten steel. With the installation of the improved military device for weighing missiles and determining the center of gravity of a missile, difficult problems were readily solved.

Of course, in the course of turning military industries over to civilian production, some problems have appeared. For example, influenced by the practice whereby the whole party and the entire people engaged in trade, the Army did likewise, participating in some illegal business activities. Again, since the military industrial enterprises turn out products for civilian use, more often they rush headlong into mass action in an unplanned way in carrying out production to "fight for a share of the market" with local

enterprises. Most evidently there is a glut of motorcycles on the market as a result.

However, this is a good beginning. If the CPC had done this 30 years ago, the whole of history would have been rewritten.

CSO: 4006/31

HONG KONG MEDIA ON CHINA

SHANGHAI TAKES DELIVERY OF MD-80 JETLINER

HK021348 Hong Kong HONG KONG STANDARD (BUSINESS STANDARD supplement) in
English 2 Oct 85 p 1

[Article by L. Amerine]

[Text] The first of 26 McDonnell Douglas MD-80 series jetliners was delivered to Shanghai yesterday as part of a coproduction agreement, valued up to U.S. \$1 billion by industry sources.

The pact, which includes an option on another 15 aircraft, was signed in April this year after six years of talks between McDonnell Douglas Corp, the Shanghai Aircraft Industrial Corp (SAIC) and the General Administration of Civil Aviation of China (CAAC).

The MD-82 which stopped in Hong Kong yesterday for a demonstration flight before delivery to Shanghai, is rated as the world's quietest aircraft in its class and has a price tag of about \$23 million, MD officials said.

The MD-80 series ranges from \$20 million to \$25 million for each jetliner, depending on specifications and exchange rates fixed into the contract.

No financing terms of the deal were disclosed but it has been reported that CAAC is unable to buy new planes from its operating budget and must borrow from the government or arrange lend-lease financing.

Local industry sources suggested the eventual price of each MD-80 built in China may exceed the \$23 million figure.

McDonnell Douglas China Inc will also open an office in Hong Kong at the end of this month, the first major commercial airplane manufacturer to do so, according to Mr John Gavin, vice president, administration and chief counsel at MDC.

The 25 twin-jet transports will be put together by SAIC from subassembly kits supplied by McDonnell Douglas, with the first one scheduled for delivery in January next year.

The first SAIC-assembled MD-80 is expected to roll off the assembly line in July 1987.

Mr Gavin said there are about 20 MD specialists currently in Shanghai, and the number is expected to increase to 50-70 at the peak of the programme next year, he said.

The Shanghai zhvinistrative region of the (CAAC) [as published] has operated two MD-80's since December 1983.

Mr Gavin attributed the aircraft's success in China to effective scheduling, relatively long routes and CAAC maintenance training provided by MD's product support field service representatives.

The Shenyang administrative region of the CAAC recently ordered two more MD-80's, raising the total to 30 airplanes committed to China service.

Industry sources said that MD is a relative newcomer to today's China market, compared to arch-rival Boeing which sold 10 707's to China in 1971.

Meanwhile, reports have been circulating in Hong Kong about a HK \$1.6 billion aircraft leasing deal involving two Boeing 767's, five Boeing 737's and one DC-9 MD-82.

The deal, said to have been concluded recently, is said to be the largest leading arrangement by any Chinese organisation through Hong Kong channels.

Financiers said to have taken part included Westpac Finance Asia, Standard Chartered Asia and associated companies of the Hong Kong Bank, Bank of China and Chase Manhattan.

Spokesmen for some of the financing parties named declined to comment beyond the fact that their companies had been involved in aircraft leasing, without confirming or denying any connection to the CAAC arrangement.

The two Boeing 767's are said to be on lease to the Beijing branch of the CAAC, possibly for the China-Hong Kong routes or for routes linked to neighbouring countries.

Five Boeing 737's are reportedly on lease to the Guangdong branch bureau mainly for Guangzhou-Hong Kong flights but also for internal routes linking Guangzhou with other major cities.

The single model MD-82 DC-9 is said to have been leased in the name of the Shanghai branch bureau of the CAAC, for use on either the Hong Kong-Shanghai route or the Shanghai-Beijing route.

However, it would be assembled in Shanghai as a joint-venture project between the industrial arm of CAAC in Shanghai and MD, and would be delivered at the end of two years, it was reported.

CSO: 4020/13

HONG KONG MEDIA ON CHINA

VENEZUELAN TRADE MISSION VISITS PRC VIA HONG KONG

HK020437 Hong Kong HONG KONG STANDARD (BUSINESS STANDARD supplement) in
English 3 Oct 85 p 1

[Article by Ernie Pereira]

[Text] With an eye on the vast China market, a high-powered four-member Venezuelan government trade mission leaves Hong Kong today for an official visit to China at the invitation of the Chinese Trade Ministry after having come here from Japan on a two-day stay.

Mr Peter Aivars, mission leader and president of the state-owned C.V.G. International C.A. told BUSINESS STANDARD yesterday that the move to further develop trade and commercial relations with China has been considered for some time.

"This visit to China," he said, "is thus long overdue and we are glad to be going there."

Mr Aivars said the mission will visit Shanghai for three days and then fly to Beijing for talks with the Chinese before returning to Hong Kong in a week.

"Venezuela is rich in minerals and we can offer steel, bauxite, alumina and other minerals to the Chinese in return for what they may want to offer," he said.

The trade push towards China and the Asian region, Mr Aivars said, was inevitable being motivated by recent cuts imposed by the United States on steel imports from Venezuela, forcing his country to adopt a new trade policy to Asia with the hope of finding new markets in China and Southeast Asia.

"We have come to Asia not just to look but to stay and do business," Mr Aivars stressed.

He expressed confidence that his mission would sign trade agreements with China which has expressed interest in buying "our minerals."

On returning to Hong Kong, Mr Aivars said the mission will have to decide whether to open its office here or in Tokyo.

During his brief visit here, he said he found Hong Kong's facilities to be excellent.

"Hong Kong is also such a cosmopolitan place that we are already tempted to favour it over Tokyo," he said.

Other members of his mission are Mr Vicente Valenilla of the Instituto de Comercio Exterior and Special Adviser to the president, Mr Omar A. Tovar, of C.V.G. and Mr Augusto J. Corrales, also of C.V.G. who will be in charge of the Asian office when it opens.

Mr Aivars said C.V.G. is a Venezuelan state company in charge of all activities of the iron ore mining industry in his country. The company has been mining and commercialising iron ore in the national and international markets since 1976 when it was formed.

C.V.G. realises that it is not too late to enter the Asian market and that "it's better late than never," Mr Aivars stressed.

"There is no turning back now that we've decided to come to this part of the world," he added.

Mr Gonzalo Ramirez Calles, the acting consul general of Venezuela in Hong Kong, hosted a dinner on Tuesday at the Aberdeen Marina Club in honour of the visiting delegation.

Mr Ramirez is expected to accompany the delegation on its fact-finding mission to China.

CSO: 4020/13

HONG KONG ECONOMIC TRENDS

HONG KONG BUSINESSMEN ON IMPACT OF JENKINS BILL

OW201940 Beijing XINHUA in English 1846 GMT 20 Sep 85

[Text] Hong Kong, September 20 (XINHUA)--Two prominent Hong Kong businessmen hold optimistic views that the Jenkins Bill, which was passed by the Trade Subcommittee of the U.S. House Ways and Means Committee, would not cause substantial change in U.S. trade policy.

The present situation is only "temporary aberrations" and it would be "very unusual for America to adopt any substantial changes in its established and successful international trading policy," said Vice Chairman of the Hong Kong General Chamber of Commerce, Tom Clydesdale, today.

Protectionist action in one country causes immediate reciprocal adverse actions in others as world trade is interdependent, warned Clydesdale.

Also expressing optimism is the executive director of the Federation of Hong Kong Industries Lawrence Mills who told XINHUA today that the Jenkins Bill would not become law and that President Reagan would veto it.

The U.S. economy is still creating jobs, with an unemployment rate lower than that of Europe. All that is needed to "more time for the lobbying activities to overthrow the bill," Mills said.

"The Jenkins Bill is only a short-term problem" due to America's high unemployment, unstable economy, and large expenses in national defense, he said.

The bill, which proposes to cut textile imports from Asia into the United States or limit the annual growth rate to as little as one percent, raises general opposition from countries and regions in Asia including China, Indonesia, Taiwan, Thailand, and Hong Kong.

CSO: 4020/11

HONG KONG ECONOMIC TRENDS

HONG KONG EDITORIAL WARNS OF CHAOS IF JENKINS BILL PASSED

HK230323 Hong Kong SOUTH CHINA MORNING POST (BUSINESS NEW Supplement) in English
23 Sep 85 p 2

/Editorial: "Protectionism on a Collision Course"

/Text/ The referral of the Jenkins Bill by the trade subcommittee of the U.S. House Ways and Means Committee to the main committee for consideration this week looks ominous.

It seems to have happened so easily, auguring a smooth passage for the discriminatory bill through the House of Representatives, possibly the Senate as well.

That scenario should plunge Hong Kong's industry, if not the whole community, into a state of gloom.

For the bill, if it becomes law, will not only directly slash our textile exports, but indirectly will unravel the whole fabric of international trade.

While the threat to our exports is severe, the issue must also be viewed in the global context of the General Agreement on Tariffs and Trade (GATT).

If the bill becomes law, it will mean the destruction of the Multi-Fibre Arrangement (MFA) and 34 bilateral agreements between the United States and developing countries.

The abrogation of the agreements will in turn set off a wave of protectionism and retaliatory measures greater than anything of the sort seen before.

If the MFA falls, the GATT, the only instrument for orderly trade existing, will come under immense pressure. And if that crumbles, the consequence will be chaos.

The issue should also be viewed bearing in mind the principle of fair trade and market access without discrimination.

The bill is blatantly discriminatory and penalizes arbitrarily.

True, Hong Kong is not alone. Other developing exporting centers are included.

However, it exempts the European Economic Community and Canada and so contravenes the fundamental principle of nondiscrimination under the GATT, an international trade treaty and an organization of which the United States is a founding member.

The bill also claims to enforce the MFA. In reality, it is fundamentally in conflict with the MFA.

That arrangement provides agreed procedures whereby importing countries, following consultations, may place limits on imports, based on recent trade levels, where disruption to the domestic industry can be shown.

The bill provides for the unilateral imposition of limits on imports at levels substantially below recent trade and regardless of the existence of disruption to the domestic economy.

The MFA provides for minimum growth of six percent. The bill provides for growth of one percent in most items and this only after drastic cuts in trade levels this year over last year.

As it happens, Hong Kong is not whistling in the wilderness in fighting the bill. President Reagan himself has come out firmly against the United States resorting to protectionist policies.

One view holds that although the bill will get past the House, it is the next stage, in the Senate, that will provide Mr Reagan with his first battleground in his antiprotectionist war.

For Hong Kong, the battle has just begun. No one with any knowledge of world trade would believe such a bill could pass into law. But so much depends on the consciences of the legislators.

Hong Kong must persist in trying to induce understanding among U.S. legislators of the disastrous results that will ensure if they vote the bill into law.

And we should continue to give Mr Reagan every support in his stand against protectionism.

CSO: 4020/19

HONG KONG ECONOMIC TRENDS

HONG KONG TRADE DIRECTOR STILL OPPOSES AMENDED JENKINS BILL

HK240521 Hong Kong SOUTH CHINA MORNING POST (BUSINESS NEW Supplement) in English 24 Sep 85 p 3

/Text/ Describing an amended version of the Jenkins Bill as "still thoroughly objectionable," Director of Trade Hamish Macleod yesterday reiterated Hong Kong's determination to oppose it.

The amended version is likely to be introduced in the U.S. congress this week by Senator Strom Thurmond.

Mr Macleod said although the proposed cuts in U.S. imports have been limited to not more than 30 percent in any category, the revised bill has signalled /as published/ out those countries which provide 10 percent or more of America's imports (South Korea, Taiwan and Hong Kong) for the harshest treatment.

Mr Macleod said in a statement: "As far as Hong Kong is concerned, the amended bill is still unjust and unjustified, and clearly inconsistent with the philosophy of fair trade espoused by President Ronald Reagan and many other U.S. politicians.

"Furthermore, our fundamental objection to their unilateral approach to solving trade problems remains. The bill, even if amended, still runs counter to the GATT (General Agreement on Tariffs and Trade), the MFA (Multi-Fibre Arrangement) and the United States' obligations under existing bilateral textile agreements.

"The latest version (of the bill) is merely a divisive ploy. We are as determined as ever in opposing it."

The principal amendments proposed to the Jenkins Bill include:

Defining as "major exporting countries" those which provide 10 percent or more of U.S. imports (provisionally, Taiwan, Korea and Hong Kong). The EEC is excluded from the bill.

This group is subjected to cutbacks as before, with a maximum 30 percent cutback in trade in any category from last year's import levels.

Defining other suppliers as "exporting countries" generally to be given no growth in 1985 on 1984 imports and not more than one percent growth thereafter.

Excluding dolls and toys from the bill.

Providing for cutbacks in nonrubber footwear imports.

Mr Macleod said the broad effect on Hong Kong appears to be to cut MFA exports by an average of about 8 percent (compared with 12 percent under the original bill), and to curb non-MFA exports by about 30 percent (compared with 70 percent).

"We knew about the possible amended version late last week. In consultation with the Textiles Advisory Board, we reviewed our tactics in the light of these possible amendments, and revised instructions have been issued to our lobbyists," Mr Macleod added.

"The position is extremely fluid and we have to review our tactics day by day; Textab /expansion unknown/ meets as frequently as required," he said.

The original version of the bill has been passed without amendment by the Trade Subcommittee of the House of Representatives and is due for consideration by the House Ways and Means Committee on Thursday.

The Senate Finance Committee was scheduled to resume hearings on the bill yesterday.

"Although we still expect the bill to reach a climax some time in October," said Mr Macleod, "the sequence of legislative events may change and various amendments may be proposed as the bill progresses through congress.

"Or indeed faster progress may be obtained if the bill's supporters succeed in tagging it on to some other bill already being processed through congress.

"The Trade Department is in daily contact with Hong Kong's lobbying teams in Washington. Besides consulting Textab, the department will continue to keep major relevant trade and manufacturing groups in Hong Kong informed of developments," he said.

CSO: 4020/19

HONG KONG ECONOMIC TRENDS

ASIAN BANKING CONFERENCE OPENS IN HONG KONG

OW241331 Beijing XINHUA in English 1254 GMT 24 Sep 85

/Text/ Hong Kong, 24 Sep (XINHUA)--Asia can be expected to lead the way internationally for new electronic banking product development, particularly for tailored micro-based products.

Victor Menezes, Citibank's country corporate officer for Hong Kong, said in his keynote report here today at the opening session of the fourth Asian congress on electronic banking services.

Menezes said Asia is already well active in moving the frontiers forward. Though current major players of terminal-based home banking are the United States, United Kingdom, France and Federal Germany, he said, home banking service are already available in a number of locations across Asia, including Singapore, Hong Kong and Tokyo.

A challenge facing many Western countries has been how to move a historically back-office function into the frontline of business planning. In Asia and particularly in countries with a shorter history of automation, he said, "We are well positioned to 'leapfrog' our organization structures and attitudes to reflect immediately the strategic importance of the system function."

He said the human processing costs in Asia are already spiraling, and an increasingly sophisticated marketplace is going to generate the increases in transaction volume that make automation essential.

He held that one of the challenges over the next decade is how to design sufficient flexibility and customer-applicability into systems without trying to make them all things for all people.

"The renowned versatility, creativity, and opportunism in Asia lay the field open for innovative new product development taking advantage of tomorrow's technologies," he added.

The 2-day congress will also examine several country-case studies and the options for Asian nations to apply financial technology during the next 15 years. Reports on changing of the relationship between banks and customers and international bank software systems and self-service banking will be read out tomorrow.

About 100 delegates from Australia, Hong Kong, India, Indonesia, Japan, Malaysia, New Zealand, the Philippines, Singapore, Sri Lanka and Thailand attended the 2-day congress.

CSO: 4020/19

24 October 1985

HONG KONG ECONOMIC TRENDS

HONG KONG RETAIL SALES FOUR PERCENT LOWER THAN JULY 1984

HK040153 Hong Kong HONG KONG STANDARD (BUSINESS Standard Supplement) in English
4 Oct 85 p 4

/Text/. The value of retail sales in July 1985, estimated at \$5,460 million, was four percent lower than in July 1984, while their volume was five percent lower, according to the provisional survey results released by the Census and Statistics Department.

Retail sales for the 3-month period May-July 1985, when compared with the same period in 1984, fell by two percent in value and three percent in volume.

Compared with June 1985, retail sales for July 1985 increased by five percent in value and six percent in volume.

When compared with July 1984, retail sales of clothing, footwear and allied products increased by six percent in value but decreased by two percent in volume.

Both fuels and foodstuffs, alcoholic drinks and tobacco recorded slight increases, of one percent in sale value and two percent in sales volume.

On the other hand, retail sales of consumer durables dropped by 5 percent and "other consumer goods" by 10 percent in both value and volume terms.

Retail sales of clothing, footwear and allied products for the 3-month period May-July 1985, when compared with the same period of 1984, showed an increase of six percent in value but a decrease of two percent in volume. Fuels recorded an increase of one percent in value and two percent in volume.

Foodstuffs, alcoholic drinks and tobacco showed no change in sales value, and recorded a slight increase of two percent in sale volume. Retail sales of consumer durables decreased by three percent in value and four percent in volume, and of "other consumer goods" by six percent in both value and volume terms.

When compared with June 1985, retail sales of "other consumer goods" records an increase of seven percent in value and eight percent in volume. Clothing, footwear and allied products increased by six percent in sales value and eight in sales volume. Retail sales of consumer durables rose by five percent, of foodstuffs, alcoholic drinks and tobacco by four percent, and of fuels by one percent in both value and volume terms.

Analyzed by selected trades, retail sales of motor vehicles rose substantially in both value and volume terms when compared with July 1984. Moderate increases in both value and volume terms were recorded for retail sales of department stores and of supermarkets. However, retail sales of consumer durables other than motor vehicles decreased in both value and volume terms.

Comparing the 3-month period May-July 1985 with the same period in 1984, retail sales of motor vehicles increased considerably in both value and volume terms. Supermarkets and department stores recorded moderate increases in both sales value and volume. On the other hand, consumer durables other than motor vehicles decreased moderately in both value and volume terms.

When compared with June 1985, retail sales of supermarkets showed no change in both value and volume terms, while those of all other selected trades recorded moderate increases.

CSO: 4020/19

HONG KONG ECONOMIC TRENDS

AUGUST FIGURES SHOW HONG KONG DOMESTIC EXPORTS DOWN

HK260617 Hong Kong SOUTH CHINA MORNING POST (BUSINESS NEWS supplement)
in English 26 Sep 85 p 1

[Article by Diane Stormont]

[Text] Preliminary figures for last month's trade, released yesterday, are likely to add to the gloom surrounding Hong Kong's domestic export performance.

The Census and Statistics Department reported that for last month, domestic exports totalled \$11.98 billion, a fall of \$1.76 billion or 13 percent from August last year.

And for the first eight months of this calendar year, domestic exports were down 6.2 percent in value to \$94 billion compared with the corresponding period a year ago.

In both cases, the August showing was worse than in July, when the drop from the same month last year was 12 percent and that for the first seven calendar months, 5 percent.

It would appear that a massive surge in domestic exports in the last four months of the year are needed to meet Financial Secretary Sir John Bremridge's projection on Monday of a one-percent real increase this year.

Even Hong Kong's growing re-export sector failed to stem an overall fall in total export earnings.

Re-exports registered a 23-percent gain compared with August last year, to \$8.8 billion, and a 37-percent rise comparing the two eight-month periods.

But even with re-exports taken into account, total exports registered a 0.5-percent decline for the month compared with August last year, although for the eight months they showed a 9.5-percent increase.

Domestic exports are considered more important as an ingredient in the overall economy's health since they involve substantially more local material and labor output.

Hong Kong's imports last month were virtually unchanged from the same month a year earlier at \$19.1 billion. With all exports totalling \$20.8 billion, that made for a visible trade surplus equivalent to nine percent of imports.

Year-on-year imports rose 4.3 percent and the visible trade gap stands at \$7.16 billion in surplus, which translates into 2.4 percent of import values, little changed from the 2.5 percent recorded this time last year.

Sir John, in his speech Monday, placed much blame for a reduced forecast for gross domestic product growth this year--he put it in the 4.5 to 5 percent range against an earlier estimate of 7.2 percent--on the slowing of demand in Hong Kong's traditional export markets, and particularly the United States.

Sir John's comments were echoed by a spokesman for the Government Secretariat yesterday, although he added that re-exports continue to grow.

This is not true, however, for last month's figures compared with July, which showed a 1.1 percent decline.

That fall could boost fears that China's tighter foreign exchange policy is beginning to eat into Hong Kong's lucrative, Sino-fuelled re-export sector, analysts said.

On the other hand, last month's domestic exports were an improvement on July figures--up 3.5 percent--which could reflect pre-Christmas seasonal factors.

Last month's total exports rose 1.5 percent over July and with imports creeping up by 1.4 percent, the visible trade surplus was \$1.6 billion.

CSO: 4020/11

HONG KONG ECONOMIC TRENDS

MONETARY COLLECTION SETS RECORD IN HONG KONG

Hong Kong TA KUNG PAO in Chinese 4 Sep 85 p 13

[Article: "Largest Fund Collection in Hong Kong's History; Mass Transit Railway Raises \$2.8 Billion; Full Loan Secured Above Quota; 35 Financial Institutions Participate in Consortium Loan"]

[Text] The Mass Transit Railway Co signed an agreement yesterday to raise funds with financial institutions led by Wardley Co Ltd. The total value of the consortium loan is HK \$2 billion with HK \$800 million in commercial notes for a total of HK \$2.8 billion. This is the largest fund collection in Hong Kong's history.

At the signing ceremony, Chairman Li Dun [2621 2415] of the Mass Transit Railway Co said that their original goal was to raise a loan of HK \$1.7 billion. In the end this estimate proved too conservative. After a joint study they decided to raise the loan figure to HK \$2 billion. The entire loan has been secured above quota, indicating that this consortium loan is very well received by the lenders.

In an interview with reporters after the meeting, Li Dun said that this is a sustained consortium action. The goal of their fund raising was to meet the needs of the Mass Transit Railway Co for business capital and expenses. Moreover, some funds may be allocated to repay existing debts. Mass Transit Railway's current debt is HK \$17 billion to 18 billion.

Li Dun revealed that 40 and 60 percent of the company's debt are in fixed interest rates and floating interest rates, respectively. Market conditions will determine whether to increase fixed interest rates indebtedness.

When asked whether the Mass Transit Railway Co would swap the interest rates on its indebtedness, Li Dun did not answer affirmatively. He said that interest rates on the Hong Kong dollar are currently low compared to those of a year ago. The Mass Transit Railway Co has arranged some interest rate and currency swaps in the past.

The Mass Transit Railway Co raised HK \$2 billion in a consortium loan two years ago. The consortium loan and commercial notes signed yesterday total HK \$2.8 billion, which is a larger loan figure. When a reporter

asked when the next fund collection would be, Li Dun's response was that they will continue to study the financial situation, negotiate with financial institutions and explore fund raising at an appropriate time. It is an ongoing activity.

A 10-year time limit was put on yesterday's Mass Transit Railway loan. Interest during the first 6 years will be the banking industry's discount rate on the Hong Kong dollar plus three-eighths of 1 percent. The interest rate during the next 4 years will be the discount rate plus 0.5 percent. With reference to this loan and the attached institutions' cyclical agreement, after 6 years the companies can freely take a share in and continue to collect the loan concerned if the consortium so decides.

The consortium loan was arranged by Wardley Co, Commercial Bank of Hong Kong and Shanghai Banking Corp, and Sanwa International Finance, Commercial Bank of the Sanwa Bank of Japan. Their arrangement included 15 executive directors, 14 managers and 6 participating banks.

Arrangements for commercial notes will replace a current market action and be arranged upon expiration of the commercial notes next year. The highest exclusive selling agent interest on these notes will be the Hong Kong dollar bank discount rate plus 0.25 percent, maturing in 5 years with an option of 7 years. Thirteen executive directors of the consortium loan will participate in the HK \$800 million commercial note loan arranged by Wardley.

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CSO: 4006/935

HONG KONG ECONOMIC TRENDS

BRIEFS

HONG KONG BANKER DISCUSSES PROTECTIONISM--Hong Kong, 17 Sep (XINHUA)--Government and industry in Hong Kong must wage a long-term, united fight against protectionism, Senior Vice President and Hong Kong Area General Manager of Bank of America Stephen Hunt said here today. He noted that the protectionism issue does not begin and end with the controversial Jenkins bill. "There is currently a tremendous tide of protectionism in America and it is here to stay. Jenkins is only the start." He predicted that protectionism will be featured strongly in the U.S. political scene in coming years, most particularly during the 1986-88 congressional and presidential election campaigns. He urged traditional free trade advocates here to revise their pro-free-trade movement to a "fair" trade policy. This, he explained, refers to that many nations and the world can compete on equal terms with American and European countries in the international marketplace. "You can be in our market, if we can be in yours" sums up the attitude, Hunt concluded. /Text/ /Beijing XINHUA in English 1523 GMT 17 Sep 85/

CSO: 4020/19

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